ASSESSING THE EFFECTS OF TAX INCENTIVES ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN TANZANIA: A CASE OF ARUSHA CITY COUNCIL

By

MUSSA J. MONDO

MBA-LG

A Dissertation Report Submitted in Partial Fulfilment of the Requirement for the Award of the Degree of Master in Business Administration Leadership and Good Governance of the Institute of Accountancy Arusha

November 2022

AUTHOR'S DECLARATION

I, Mussa J. Mondo, declare that this report is my original work and that it has not been presented and will not be presented to any university for similar or any other degree awards.

Signature………………………………….. Date……………………………

CERTIFICATION

I, the undersigned, certify that we have read and hereby recommend for acceptance for defence by the Institute of Accountancy Arusha, a dissertation report entitled**: "Assessing the Effect of Tax Incentives on the Growth of Small and Medium Enterprises in Tanzania: A Case of Arusha City Council"** in partial fulfilment of the requirements for the Degree of Master of Business Administration Leadership and Good Governance of the Institute of Accountancy Arusha.

…………………………….

Dr.Solomon Muguba

Supervisor

…………………….

Date

COPYRIGHT

DEDICATION

I dedicate this well-presented dissertation to my lovely son and daughter, John and Joan also, my wife, Jane Michael, my mother and my late father (Rest in peace). I thank and revere GOD for having you because you fill me with immense pride. With these comments, this job is your compensation. God willing, I anticipate that my son and daughter will find my dissertation to be an inspiration to pursue the highest levels of study.

ACKNOWLEDGEMENT

I am grateful to Almighty God for enabling me to successfully complete this dissertation and the rigorous work of the Master's Degree in Business Administration Leadership and Good Governance (MBA-LG) at the Institute of Accountancy Arusha.

I am equally thankful to the major supervisor, Dr. Solomon Muguba, who was helpful enough to provide me with vital comments and suggestions, which helped in producing this dissertation.

Equally so, I thank the Arusha City Council Management, particularly Mr.Chitukulo (Arusha City Council Director) and Ms.Marium Shabani (The Assistant Tax Consultant at Arusha City Council), who spared their valuable time to provide data and facilitating the logistics for data collection exercise.

I also want to express my gratitude to my mother, sisters, small brother Mourice Kaleb, and friends for their support and love. My wife Jane Michael deserves special gratitude; she and I frequently consult on a range of topics, some of which are relevant to this dissertation.

Although assistance was given, as stated above, I am still completely accountable for the errors and opinions contained in this dissertation. God blessings to everyone.

ABSTRACT

While taxation plays an important role in the government budget as the main source of revenue, the government, since the period of economic reforms of the late 1980s, has established various tax incentives to attract both local and foreign investors. Previous studies mainly focused on the influence of tax incentives in Asia; for Africa, the studies were only done in South Africa, Ghana, and Rwanda. Considering that the effects of tax incentives on SMEs growth are not adequately explored in the extant literature and specifically in the SME sector of Tanzania, this created a substantial research gap worth filling. To address the research gaps, this study assessed the effects of tax incentives on SMEs' growth within Tanzania with a focus on enterprises operating in the Arusha City Council. Based on the Agency theory of tax incentives, a conceptual framework of Twesige and Gashega (2019) was used to choose five tax incentives, namely corporate income tax incentives, capital allowance tax incentives, export duty incentives, import duty incentives and tax rebates. The empirical results showed that 29 SMEs in the study out of 97 receives corporate income tax incentives equivalent to 29.89 %, and 13 receives capital allowance tax incentive equivalent to 13.4 %. Moreover, 18 receive export duty tax allowance equivalent to 18.55 %, 17 receive import duty equivalent to 17.53 %, 08 (8.45 %) receive tax rebates and 04 (4.12 %) receive other forms of tax incentives while only 08 (8.45 %) said do not receive any form of tax incentives mentioned in the study. The effects analysis revealed that corporate income tax incentives, import duty and export duty incentives have effects on SMEs' growth, particularly on financial and productivity performance. Following the findings and conclusion made, it was recommended that policies that enable SMEs to benefit from tax incentives be reviewed in the economy to accommodate startup SMEs that come up with innovative ideas of providing improved products, processes, and services with increasing efficiency and creating jobs. In conclusion, generalizing these findings for all types and sizes of SMEs may require further investigation.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS AND ACRONYMS

EFDs	Electronic Fiscal Devices
EPZ	Export Processing Zones
GDP	Gross Domestic Product
OECD	The Organization for Economic Co-operation and Development
PAYE	Pay as You Earn
R&D	Research and Development
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
TZS	Tanzania Shillings
VAT	Value Added Tax

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter provides the basic foundation for the study area and focus. It covers the background of the study, the statement of the problem, research objectives, research questions, theoretical and conceptual frameworks, significance and hypothesis of the study, scope or delimitations of the study, limitations and operational definitions of terms.

1.1 Background to the Research Problem

The use of tax incentives in development programs globally has been very popular and very controversial for decades (Masanja, 2019). In the course of historical development, countries have been taking actions to raise more revenues by devising policies, regulations and other measures in their taxation systems for enterprises in order to get more resources for the provision of public goods and services. With the progress of time, the desire for social progress and more increases in government spending called forever increases in demand for taxation revenue collection.

In the formal economy, tax administration constitutes a lot wherever resources are engaged in economic activities. In a sector as growing as SMEs, taxation policy and administration may make business enterprises prosper or fail. Tax incentives, hence, are seen as the process of choice and operations in promoting the prosperity of SMEs. According to the Tanzania Economic Survey (2020), SMEs' growth performance cannot be addressed by the exclusion of the tax regime of the country.

SMEs' performance has dominated the subject of taxation; however, taxation is no longer just a tool for the public sector. It is a form of economic management which is an instrument employed in a broad range of formal production and operation activities, including financial, agriculture, manufacturing, and services sector, among others. The main difference between taxation in SMEs and other sectors of the economy is that SMEs operate with less power in terms of resources and opportunities of market and network that deserve special consideration, particularly in a developing economy.

As the activity of tax collection is viewed to have a direct connection to economic activities, particularly of Small and Medium Enterprises, a closer look has been on whether the imposition of more taxation can impact economic growth from which revenue is expected to be raised. In the wake of sporadic failures of many countries to promote economic growth and a potential for high economic growth across the world, tax incentives have become a necessary strategic issue arousing interesting debates among stakeholders. This includes policymakers, entrepreneurs, corporate professionals, regulators, business owners and researchers. Madan & Stimmelmayr (2018) contend that over the years, countries like the People's Republic of China, Singapore, Malaysia, and South Korea, among others, have demonstrated that the growth and success of SMEs do not only depend on the abundance of resources but the exhibition of appropriate policy practice of tax incentives.

Tax incentives clearly influence investment decisions in some situations, according to the Organization for Economic Co-operation and Development (OECD, 2019), but it is not at all evident that the overall advantages outweigh the disadvantages. Tax incentives, as defined by UNCTAD (2003), are tools that lessen the tax burden of any party to encourage them to engage in specific projects or industries. Reduced tax rates on earnings, tax holidays, and accounting rules that provide accelerated depreciation and loss carryforwards for tax purposes are examples of these deviations to the regular tax regime. Moreover, higher tariffs to defend the domestic market rather than decreased tariffs on imported raw materials, components, and equipment (Twesige & Gasheja, 2019). Tax incentives are all the techniques and policies that offer favourable tax treatment to particular industries or sectors, according to Keen (2013). Although a universal definition of SMEs is not given, and thus, the term varies from country to country, we can follow the World Bank definition, which covers three-factor variables of employment, level of sales revenue-output (value added) and asset ownership. Thus, SMEs are businesses with little more than 300 employees, $15 million in annual sales, and $15 million in assets, primarily in the form of capital, owned by the company (World Bank, 2019). The potential of SMEs to solve unemployment, spur innovation, and support local development to support economic growth has drawn the attention of both researchers and governments in developing nations. In emerging economies, SMEs contribute to 38 percent of the GDP and 20 percent of the labour force and are more prominent in modern factories, processing plants, manufacture of implements, fertilizers, equipment, and consumer goods (Musamali & Tarus, 2013), as demonstrated in Table 1. The categorization of SMEs has common criteria of size or number of employees and annual turnover and capital requirements.

Table 1. Enterprise Status in which the SMEs Belong

Categorisation	Size (# of employees)			Annual Turnover		Capital Require-ments
Type of	Micro	Small	Medium	Cap	Factor	Paid-in
enterprise	/ Very				of per	Capital/
	small				capita	Capital
					GDP	investments
Micro	1-5	6-20	21-100	Micro	Micro –	Assets:

Small				<2M	6x	Micro <2M
Medium				Rupees	Small –	Rupees
				Small	28x	
				<10M	Medium	Small <20M
				Rupees	– 138x	Rupees
				Medium		Medium
				<50M		<50M Rupees
				Rupees		
Micro	1-9	10-	50-199			Assets
Small		49				Micro <10M
Medium						Naira
						Small <100M Naira
						Medium
						<1000M
						Naira
Micro	1-3	4-30	31-100	Micro		Capital
Small				<0.3M		Investments
Medium				RwF		Micro <0.5M
						RwF
				Small		Small <15M
				<12M		RwF
				RwF		Medium

						<75M RwF
				Medium		Large >75M
				<50M		RwF
				RwF		
				Large		
				>50M		
				RwF		
Micro	1-4	5-49	50-99			Capital
Small						Investments
Medium						Micro <5M
						TZS
						Small <200M TZS
						Medium
						<800M TZS
						Large >80M
						TZS

Source: Stever *et al.*, 2020

Appropriate tax incentive policy for SMEs is fundamental to the growth and sustainability of enterprises, and this is held more prominently within the SME sector of developing countries. The SME sector constitutes a significant place in the economy and has grown substantially in developing countries of India, Argentina, Vietnam, South Korea, and Brazil, to mention a few. In Africa, in countries with high-growth economies like Ethiopia, Nigeria, Ghana, Kenya, Egypt, Rwanda, South Africa, Namibia, Angola, Botswana and Mauritius, SMEs are reported to occupy between 20-30 percent of the economy (Mayende, 2013; LMusamali & Tarus, 2013; Okpeyo et al, 2019 and Lokhande, 2020).

SMEs are among the primary industries from which the government receives funding (SMEs). Small and medium-sized enterprises (SMEs) account for over 70% of jobs, 35% of the GDP in developing nations, and 55% of the GDP in industrialised ones (Xu et al., 2019). According to the Organisation for Economic Co-operation and Development (OECD), SMEs make up more than 95% of businesses in the OECD region. Nearly 60% of jobs in the private sector are held by these businesses, which also significantly contribute to innovation, regional development, and social cohesion. Additionally, the SME sector is vital to the GDP and employment in low-income countries (Masanja, 2019). According to nations that offer tax breaks to small and medium-sized businesses, preferential tax treatment boosts entrepreneurship by reducing the expenses associated with flexibility, speed, risk-taking, and innovation (Chen et al., 2002).

Olomi (2003) and Masanja (2019) report that popular tax items like pay-as-you-earn (PAYE), corporate tax, individual tax, domestic excise duty, domestic value-added tax (VAT), and other domestic taxes like import duty, excises duty on imports, VAT on imports, and other import charges are how SMEs contribute to the economy. Any required financial transfer from a nation's citizens to its government serves as taxation and a source of income (Ameyaw et al., 2016).

Tax is one of the main sources of government revenue to provide quality social services, development and for good governance. Besides, other sources of revenue include grants and loans (Meena, 2013). Moreover, SMEs in Tanzania have been paying taxes with difficulties and sometimes practising tax evasion (Masanja, 2019). In realizing the difficulties in collecting revenue from SMEs, the government has set strategies to overcome the challenges in order to ensure optimal revenue collection.

This research is about the effects of tax incentives in the form of corporate incomes, capital allowances, import and export duties, and Tax rebates on SMEs' growth in financial, production, and marketing performance in Tanzania. It is within this context that the researcher wants to provide guidelines by which SMEs' growth performance can be enhanced through the appropriate implementation of tax incentives in the small and medium enterprises sector of Tanzania and Arusha city council in particular.

1.2 Statement of the Research Problem

Despite many studies in developing countries, particularly in Africa, who investigated the relationship between tax incentives and economic growth, relatively little attention has been paid to tax incentives and SMEs' growth focusing on finance, production, and marketing performance in the SME sector of Tanzania. SMEs play a major role in most economies, particularly in developing countries, account for the majority of businesses worldwide 90%, and are important contributors to job creation about 59%, around 7 out of 10 jobs in emerging markets and global economic development (Siyanbola et al. 2017). Formal SMEs contribute up to 40% of national income (GDP) in emerging economies; the number is significantly higher when informal SMEs are included (Scherf and Weinzierl, 2020).

However, there have been several instances of SMEs' decline or failure to survive for more than 5 years; many businesses, about 50 percent to 70 percent in the SME sector established in Tanzania, do not exist for five years (Ugwu, 2018; and Maya, 2019). In most parts of the world where studies were done relating tax incentives and SMEs growth and established challenges such as setting high corporate taxes and inadequate depreciation allowances. Others are incurring losses in the early years, minor or negative financial results, production constraints resulting from input costs, and challenges of business processes of marketing products due to weak competencies domestically and abroad due to export duties are prominent factors (Diabate et al., 2019; Kijkasiwat and Phuensane, 2020); and Lokhande, 2020).

Past research on tax incentives has demonstrated that it is questionable whether the use of tax incentives policy is fully influencing SMEs' growth. This cross-sectional study investigates how the five main tax incentives, namely, corporate income tax, capital allowances, import duty, export duty and tax rebates, are used by SMEs and contribute to their growth in financial, production and marketing performance in Tanzania. It is from this background that this study assesses the effects of tax incentives on the growth of Small and Medium Enterprises using selected SMEs in Arusha City Council.

1.3 Objectives of the Study

1.3.1 General Objective

The main objective of this study is to assess the effects of tax incentives on the growth of SMEs with reference to the Arusha City Council.

1.3.2 Specific Objectives

This study was guided by the following specific objectives;

i) To identify the kinds of tax incentives provided by the government to SMEs, the Arusha City Council

ii) To determine the perceptions of SMEs owners on the effects of each tax incentive on the financial, production, and marketing growth performance of SMEs, the Arusha City Council

iii) To analyze the ways through which tax incentives affect SMEs' financial, production and marketing growth performance, Arusha City Council

1.4 Research Questions

This study was guided by the following questions;

i) Which kinds of tax incentives are provided by the government to SMEs, Arusha City Council?

ii) What are the perceptions of SME owners on the effects of each tax incentive on the financial, production, and marketing growth performance of SMEs, Arusha City Council?

iii) In which ways do each tax incentive affects SMEs' financial, production and marketing growth performance, Arusha City Council?

1.5 Scope of the Study

This study was conducted in Arusha City Council. It comprised SME owners and managers operating 85 enterprises in the Arusha City Council area. The study focused on the assessment of the effects of tax incentives on SMEs' growth working with tax incentives on corporate incomes, capital allowances and import duties. Also, export duties and tax rebates as independent variables and finance, production and marketing growth performance as dependent variables.

1.6 Limitations of the Study

This study had three limitations. The first is the time frame limitation in conducting this research, as some managers and owners of SMEs were moving to the sites of their projects. The second is financial resources limitation as funds for travel and paying people to help in data collection were running out, and the third is difficulties in accessing confidential information related to this study, specifically in regard to issues of income and financial performance. These limitations highlight the difficulty in collecting data on SMEs under investigation. Nevertheless, to overcome these limitations and consequently minimise their negative impact on the findings of the study, the researcher used the following ways;

The researcher utilized extra time after working hours in collecting data relating to this study because respondents reached after working hours and others on weekends. In case of financial resources limitation, the researcher utilized his savings and, in case of the further financial challenge faced, sought a sponsor who helped to cover some financial costs required to complete this study. On confidentiality, by educating the respondents and other participants in the research on the purpose of the study, the researcher was able to access adequately confidential information relating to this study.

1.7 Significance of the Study

Tax administration as a discipline has been gaining much attention globally in recent years. This is in view of the fact that taxation influences economic performance, and for any sector to remain competitive, there is an urgent need to infuse the inputs, tools and techniques of taxation policy, specifically tax incentives in the small and medium enterprises. The role of tax incentives in SMEs' performance cannot be written off, particularly in a developing economy like Tanzania. Therefore, the research topic is well-aimed and has significance in the Tanzanian context.

Every facet of economic development that fails to reckon with the relevance of taxation policy is a failure in the pursuit of championing a viable cause. The inability to assess the effects of tax incentives has serious negative repercussions on investment behaviour and general entrepreneurship in any meaningful economy. Thus, this research will help policymakers and planners, particularly in Tanzania, to be more conscious of the administrative, professional and other needs that contribute significantly to the success of any taxation policy on SMEs performance.

This study gives practitioners the information they need to understand the impact of tax incentives on the expansion of SMEs. The argument frequently used to support special incentives is that investing in particular industries and regions is subject to market failures that call for government involvement. The findings from this study will be valuable to policymakers and financial, production and marketing managers in the process of making decisions on SMEs' growth and support. Finally, the study is significant to the researcher for the partial fulfilment of the award of the degree of Masters in Business Administration in Leadership and Good Governance from the Institute of Accountancy Arusha.

1.8 Organization of the Study

This study is organized into five chapters. Chapter one presents the problem setting in terms of background and purpose of study, and the research significance is also noted. Chapter two presents and reviews in detail the relevant literature related to the study and gives the theoretical underpinnings of the study. Some of the notable theories discussed include the Benefit theory of tax and the Agency theory of tax incentives. The chapter discusses the relationship between tax incentives and SMEs' growth as it exists in the literature. It delves into discussing relating to the discipline of SMEs' growth performance and the application of tax incentives in performing enterprises.

Chapter three presents the research methodology to be used in the study, starting with setting the study area, research design and approach. Also, this chapter discusses the procedures used in the selection of the respondents, the questionnaire and interview guides and why the author adopted the statistical and thematic data analysis techniques.

Chapter four gives a detailed presentation of the results and discussions. It also discusses the study sample characteristics, descriptive analysis and major findings of the study. SPSS software will be used for the assessment of the questionnaire feedback and to give the validity and reliability of all the data collection instruments. The same tool will be used for the analysis of data according to the objectives of this study.

Last but not least, chapter five summarizes the entire dissertation and presents the conclusions and recommendations. This is followed by the references, acknowledgements, and the relevant attached appendices.

CHAPTER TWO

LITERATURE REVIEW

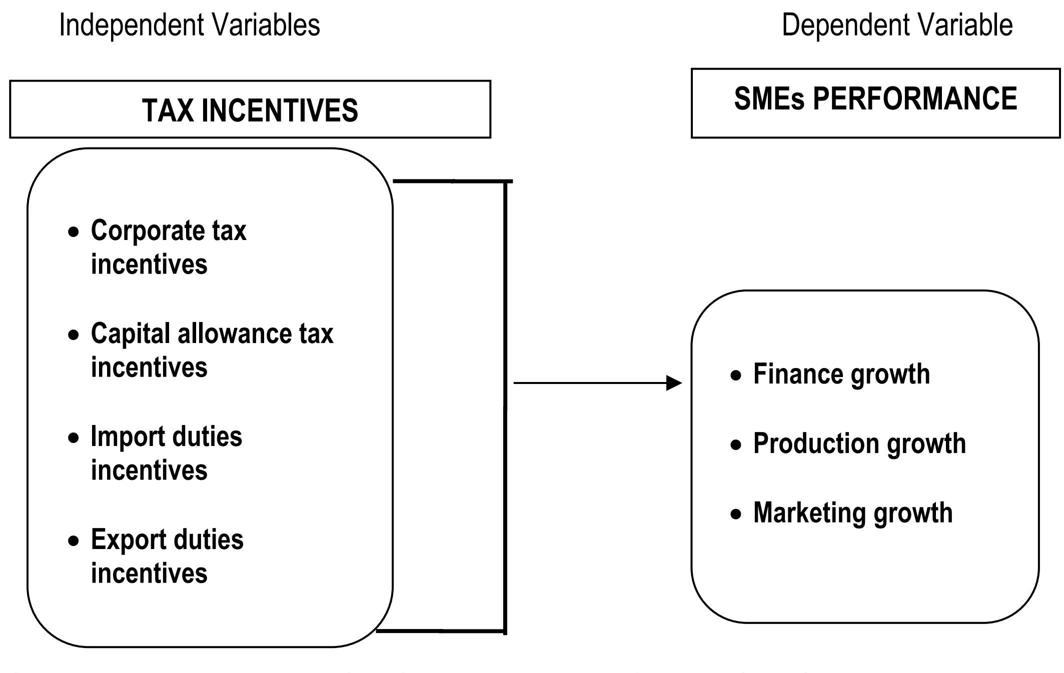
2.0 Introduction

This chapter covers a review of related literature on the effects of tax incentives on SMEs' growth. It covers the information relating to the theories and other literature on tax incentives, and SMEs' growth performance in the areas of finance, production and marketing, among others. The reason is (1) to further elaborate the relevance of the proposed research topic, (2) to give the basis for defining relevant research questions, and (3) to summarize the existing theories and literature relevant to this research.

2.1 Conceptual Framework

Figure 1: Conceptual Framework.

An abstract idea or theory that is utilised to create new concepts or reframe old ones is what is meant by a conceptual framework. It reveals how the dependent and independent variables are related (Saunders et al. 2017).



Source: Adopted and modified from Twesige and Gasheja (2019)

The figure shows the basic conceptual model. From the basic model, the tax incentives dimensions (corporate income tax, capital allowances, import duties, export duties, and tax rebates) are the independent variables, constituting the main government policy instruments for catalyzing business processes. SMEs' growth dimensions (finance, production, and marketing growth) constitute dependent variables. In the views of Koranteng et al. (2017), Lim et al. (2020) and Lokhande (2020), among other researchers and scholars, SMEs' growth performance had a direct link to tax incentives.

The tax incentive has been a crucial policy instrument in many sectors of the economy in recent years. It brings together stimulating factors to achieve specific objectives (Mukhlis and Simanjuntak, 2016; Stoilova, 2017; and Stuebs et al., 2018). Many tax policies are plagued with high failure in effectively influencing economic performance, and most often, tax policy administrators are being held accountable for the procedures and responsibilities that they manage. This research assesses the effects of tax incentives practices in effectively influencing SMEs' growth and accomplishing the country's objectives of creating enabling fiscal environment for SMEs. It attempts to demonstrate the importance of effective tax incentive practices as it relates to the entrepreneurship culture of the Tanzanian economy.

2.2 Defining the Concepts of Tax Incentives and SMEs

Tax incentives refer to an exemption or relief granted to an individual or a firm to reduce the amount of tax payment obligations, consequently reducing the performance costs and thus attracting savings and investments in the economy (Mayende, 2013). Taxes incentives are useful for developmental purposes, which also help to reduce, if not eliminate, the hurdles for SMEs. They stimulate performance and make investments more attractive to entrepreneurs, increase competitive advantages and promote vibrant production decisions. Tax incentives are important for enterprise motivation, attitude and behaviour development of companies, and fostering enterprise's ability to achieve their objectives; thus, therefore, there is a positive relationship between tax incentives and SMEs' growth performance. Tax incentives are expected from the SMEs' viewpoint to have a formal and appropriate plan for steering future growth of SMEs' Performance. In short, tax incentives in whatever appropriate form are vital instruments to SMEs in managing their financial performance as it protects working capital stability and production performance as it reduces operating costs for resources and marketing performance by making SMEs products enjoy a competitive advantage and easier penetration to internal and external markets.

Siyanbola et al. (2017) define tax incentives as a government deliberate policy instrument that formally excludes some individuals or entities from tax payment obligations potentially for stimulating future development. Tax incentive for an enterprise consists of all formal procedures used in operating an enterprise to give special treatment, especially if otherwise could that entity carry heavy private and social cost meanwhile expected to contribute significantly to social benefits. An entity can have private costs on resources and production technology, and these costs may be and higher if the returns are not immediate.

Tax incentives are given to specific entities in specific stages, resources, sectors and types of goods and services. In terms of stages, tax incentives mostly apply to construction or initial operation stages, as the stage normally requires high setting costs, and the government prefers to relieve enterprises from tax requirements. In terms of resources, many enterprises can be excluded from obligations of paying import duties on capital goods and certain raw materials to encourage an increase in resource supply and utilization for economic development. In terms of sectors, in the economy, a country may want to give special priority to social development; for example, enterprises working in the agribusiness and agriculture sector, tourism sector and health sector may be exempted from tax obligations. Other forms of tax incentives apply to certain goods and services produced/ supplied by enterprises (Kiser and Karceski, 2017; Okpeyo et al., 2019; Kijkasiwat and Phuensane, 2020).

Tax incentives ought to involve the identification, measurement and management of enterprise performance in the SME sector. Identification means determining what kinds of tax incentives really apply or ought to apply in SMEs. Enterprise managers or operators need to know this clearly and integrate the value of tax incentives in company practices for the achievement of the expected aims when measuring performance. The tax incentives should focus their effects on performance that affects organizational growth rather than performance-irrelevant characteristics which were not pre-determined.

The centrepiece of tax incentives, as measured, comprises managerial evaluations of how "excellent" or "poor" SMEs performed. Tax incentive performance must be consistently measured across the industry. That is, comparable rating standards must be upheld by all managers in the industry. Tax incentives should include what businesses do or can do in the future to maximise their potential in business operations, therefore owners and managers of those businesses must give input on anticipated better levels of performance (Xu et al., 2019; and Malullo et al., 2020).

Tax incentives, as defined by the URT investment Act of 1997, ‘is an open, formal, and systematic relief instrument designed to assist both local and foreign business operators in planning, managing, evaluating and realizing growth performance in SMEs with the aim of achieving specific enterprise and general economy goals’. The system of tax incentives works percentages manner and some within a confined period example, five years of tax holidays from the time of establishment. The percentage categories are 100 percent for SMEs operating in agriculture, 45-50 percent for SMEs operating in the tourism sector, and 30 percent for corporate income tax incentives for all companies in SMEs.

One method for increasing revenue collection is the use of tax incentives and education to reduce tax evasion. To do this, special revenue department units are trained to provide taxpayers with information, counselling, and support through a variety of media, including newspapers, television, radio, websites, seminars, and front desk assistance (Olomi, 2003). Furthermore, large foreign multinational corporations frequently engage in unhealthy competition with SMEs, endangering their survival and ability to expand.

Retail investors may deduct a predetermined percentage of the amount they invest in shares of SME equity under tax incentive policies adopted by the UK and Spain. This is accomplished by limiting tax offsets to purchases of shares in new SME equity offerings (Liakhoyets, 2014). Investors can receive a tax credit in France equal to 18% of the value of their investments in innovation mutual funds. In the latter, SME equity accounts for at least 60% of their portfolios. Despite the fact that these decisive policies have been implemented, it is possible that the results will not have a significant impact on entrepreneurs because their focus is on the capital inflow from equity offerings in SMEs (Broersma and Gautier, 2017).

Belgium provides a number of tax breaks for investments. For SMEs, the general investment deduction equals 10.5 percent of the assets' depreciation (De-Wit and De-Kok, 2014). Since 2009, the rate has fluctuated between 10.5 and 12.5%. Only businesses with fewer than 20 employees are eligible for the incentive. The maximum amount that can be carried forward is € 946,800 (or 25% if the unused portion is greater than € 3,787,210). Additionally, SMEs are given a 20.5 percent credit for safety measure investments made in the year of the investment or the year after. The same restrictions regarding carrying forwards apply to the aforementioned deductions. For all Belgian businesses, there is a national interest deduction available. It equates to 4% of the required equity. SMEs may, however, subtract an additional 0.5 percent.

Since 2012, various modifications have been made that make carry-forwards impossible (De-Wit and De-Kok, 2014).

In Tanzania, Small and Medium Enterprises are defined and categorized according to business size in terms of the number of employees, value addition and capital investments. For example, micro-enterprise work with 1 up to 4 employees and capital of up to TZS 5 million, small enterprise work with 5 up to 49 employees and have capital investment from TZS 5 million to TZS 200 million and medium enterprise work with 50 to 99 employees and have capital investment from TZS 200 million to TZS 800 million (Olomi, 2003). These SMEs engage in various activities, such as farm or non-farm economic activities, mainly manufacturing, mining, commerce and services. Similarly, in Tanzania, the role of SMEs is overemphasized because more than 95 percent of businesses are made of SMEs, which contribute 35 percent of the Tanzanian Gross Domestic Product (GDP) and employ about 40 percent of the total workforce (Meena, 2013 & Masanja, 2019) as indicated in Table 1. Thus, the SME sector plays an important role in promoting economic growth and equitable distribution of economic activities (Mukhlis et al., 2013).

Moreover, in Tanzania, the SME sector is one of the growing sectors of the economy. Over the past few years, there have been phenomenal growths in the sector due to the private sector development initiatives of the government. The success, failures and challenges of each SME is hinged on tax policies in various economic activities that particular enterprises undertake operations.

The survey SMEs for this study has operators who face similar political and economic environment, and this may be useful when comparing the target enterprises. For an SME to be successful, there is the need for the use of scarce resources optimally from the respective projects implemented. Like other resources, financing, perhaps the most complex resource of an enterprise, plays an important role in the success of that establishment. Basically, finances, together with country policies, bring an SME growth performance to reality. Hence, it is important to investigate the effects of tax incentives as the drivers of financial, productivity and marketing growth in Tanzania.

2.3 Theoretical Framework

This study was guided by two theories, namely, the benefit theory of tax and the agency theory of tax incentives, as explained hereunder.

2.3.1 The Benefit Theory of Tax

The basis of the theory underlying the use of tax incentives to support small and medium-sized businesses (SMEs) is the net present value (NPV) decision rule (Megersa, 2019). According to the rule, businesses must continue to invest in capital assets and research and development (R&D) as long as the present value of each additional unit of capital expenditures or R&D is greater than the unit is cost. Since any decrease in the cost of capital caused by tax policy results in an equal increase in expenditure, it is assumed that businesses would take tax incentives and implications into account when calculating the value of their expenditure decisions (Hansson and Brokelind, 2014).

Therefore, the benefit theory of tax, which promotes taxes that agents pay and should reflect the benefit that they receive from the variety of goods and services they receive from the state, is what supports tax incentives (Neill, 2000). The standard framework on which municipal taxes is based is the benefits theory of taxation (Scherf and Weinzierl, 2020). As a result, it suggests that taxes should be high for those who benefit the most from the state while being zero or low for those who receive no benefits from the state. The greatest advantages to businesses come from government-initiated infrastructure improvements (Stewart, 2015).

Tax incentives for investments have many supporters, as is well known. Tax incentives are argued to clearly increase returns on investment, be justifiable by positive externalities resulting from investments, be relatively simple to target and fine-tune, signal openness to private investment, be practical in a world of capital mobility, be required to counteract tax competition from other jurisdictions, and make up for other flaws in the investment climate (Masanja, 2019 and Okpeyo et al., 2019).

This viewpoint is supported by some empirical studies. Megersa (2019) discovered that tax incentives helped predict GDP growth in China, positively impacted R&D spending in Taiwan, and significantly increased employment, output, fixed capital, and the number of businesses in India. Once more, Siyanbola et al. (2017) found that tax incentives are an important strategic driver for economic development in Ghana and other Sub-Saharan countries. Government assistance, such as tax breaks and tax system simplification, also encourages the expansion of SMEs (Louis & Macamo, 2011).

Tax exemptions, lower tax rates, and tax reductions may help SMEs grow economically (Bozdoanolu, 2016). It was found that firms with incentives outperformed firms without incentives in terms of gross sales and value-added in a specific empirical comparative study in Uganda (Mayende, 2013). Even better, simplifying tax incentives had a significant positive impact on business performance (Mayende, 2013). Tax incentives, in particular, were identified by Twesige and Gasheja (2019) to be predictors of sustained SME growth in Rwanda.

Since the beginning of economic and governmental reforms in the late 1980s, numerous incentives have been added over time into Tanzania's tax system. According to tax authorities, notable examples of such incentives include, but are not limited to, tax rebates, lower tax rates, tax holidays, income exemptions, capital allowances, incentives for recent graduates, free-zone incentives, double tax treaties, exemptions from capital gains, import duty exemptions, and duty-free exports (Masanja, 2019). Due to their sizes and stages in the business life cycle, SMEs are significantly impacted by market failures. Once more, the tax system unfairly disadvantages SMEs. These adverse circumstances call for support for SMEs in the form of preferential treatment (Bozdoanolu, 2016).

2.4 Theoretical Literature Review

A theoretical review is a summary of the broad concepts that the researcher, along with other writers and academics, have proposed concerning the subject under investigation. To put it another way, it is a framework for a suggested way of thinking about potentially connected occurrences that has ideas already built in that go beyond merely summarising a set of data (Locke & Latham, 2013). Because of this, this section of theoretical review briefly discusses the theories of the study as well as the meaning of the ideas of tax incentives, their historical evolution, and the impact of tax incentives on the performance of SMEs.

2.4.1 Agency Theory of Tax Incentives

Governments still provide fiscal incentives, despite the fact that there is not any proof to back up their effectiveness or efficiency, according to Zee et al. (2002). Tax incentives provide a simple solution to make up for other governmental-made barriers in the business environment. In other words, fiscal incentives react to market and government failure equally. Instead of implementing a grant or tax scheme to assist offset these barriers, it is significantly more difficult and time-consuming to address the investment impediments themselves, such as a lack of skilled labour and high regulatory and compliance costs. In fact, this frequently occurs even if providing a subsidy to offset an existing distortion is the second-best option.

Agency issues also exist between the government organisations in charge of luring capital and those in charge of the more general business environment. While investment promotion organisations can be helpful in coordinating government efforts to draw in capital, they sometimes advocate for incentives without considering the consequences to the economy as a whole (Zee et al., 2002). According to the agency theory of tax incentives, taxes are used to address both fiscal and market failures by making up for other government-created economic impediments (Twesige and Gasheja, 2019). In order to assist the government's aim of economic growth, national development, job creation, and increased welfare for the populace as a whole, incentive packages are granted as part of the tax system.

The taxation system of an economy may constitute policy packages which can affect enterprises in different ways. For instance, corporate tax and depreciation allowances create difficult conditions for investments which take a long time to start realizing profits. If corporate tax is higher compared to what is actually generated means enterprises may be bearing an excessive cost burden that demoralizes the commitment of entrepreneurs, especially in the business environment, which had other challenges like inadequacy of infrastructure, effective demand, credit facilities and attitude towards local entrepreneurship in SMEs.

The SME sector is one of the growing and relevant sectors in most developing economies, including Tanzania, but amidst this growth lays various challenges as far as investment decisions of SMEs and the taxation system are concerned. These challenges may limit the benefits and impede the sector from achieving the strategic goals of promoting economic growth, employment, and poverty alleviation since they negatively and directly affect investment decisions, thus, this call for a critical look at tax incentives and SMEs growth.

In Tanzania, Tax incentives became prominent since the inception of economic reforms in the late 1980s and early 1990s. However, some tax incentives have been applied since the 1970s. In 1990, more taxation laws were reformed to attract investment in the economy, and the Tanzania Investment Centre (TIC) was created to deal with all issues that may ensure that the investment environment in the country is conducive. One of the earliest tasks of the TIC was to go through the Taxation system of the country and come up with a proposal of policies to the government on reviewing tax structure to accommodate the current need for economic growth through private sector promotion (Massanja 2019).

The proposals of (TIC) demanded that machinery, equipment, spare parts, raw materials, vehicles, and other goods necessary and exclusively required by that enterprise for construction be exempt from customs and import duties as well as other similar taxes during the construction stage of an approved enterprise or approved domestic enterprise (URT, Investment Act 1997; Diabate et al., 2019; and Lokhande, 2020).

The Act also shows that import duties may be waived for raw materials used in approved domestic or approved foreign enterprises' trial operations, provided that the quantity does not exceed eighteen months' worth of supply for a single shift of production. Additionally, it offers a 5-year tax holiday. The government also made a provision requiring exemption and special relief on goods and services like food crops and livestock supplies, equipment used for storage, transportation, and distribution of natural gas, health supplies and hospital equipment, education services, financial and insurance services, transportation of people, sale or lease of an interest in land, and tourist services like guide services, game driving, water sports, among others, under the Value Added Tax law.

Aside from the inputs exemption, which also applied to aircraft, suppliers such as aircraft engines, components, and maintenance are also exempt from VAT. Some individuals and organisations are entitled to VAT relief under the VAT law, subject to established processes, limits, and requirements. Importers of capital goods are among those who receive a 45 percent VAT exemption. Some products qualify for a special 100% VAT reduction. The corporate income tax rate is 30% for both resident and non-resident businesses. (Nothing is excluded.) Newly listed firms with the Dar es Salaam Stock Exchange that have at least 35% of their equity shares distributed to the public are subject to a reduced rate of 25% for three years.

Investors in agriculture are entitled to a 100% capital allowance on purchases of plant and machinery, such as wind turbines, electric generators, and distribution equipment used only in agriculture. The 50% allowance is given on the cost of plant and machinery that are placed in factories or hotels that offer services to visitors or are utilised in manufacturing and are installed there. According to TIC, other capital allocation rates range from 5 percent for structures, dams, and water reservoirs to 37.5 percent for things like computers and earthmoving equipment (TIC Act 1997).

Other clauses in the statute exempt foreign banks from charging withholding tax on interest payments made to strategic investors as defined under the Tanzania Investment Act. This is one of the strategies put forth to promote foreign investment in the nation. The law on income taxes allows for a tax credit if the same income was taxed abroad but assessed against the local person (Individual or entity). Tanzania's tax structure gives special consideration to investments in mining operations. When determining taxable income, the whole amount of the year's expenses (including capital and revenue expenditures) are subtracted. Refunded is the import duty paid on inputs used to produce export-ready commodities and items supplied to foreign organisations like the United Nations in Tanzania. This plan aims to boost local industries' output while lowering their manufacturing costs so they can compete on the global market.

Tanzania is a member of the East African Customs Union, which consists of the following 7 nations: South Sudan, Kenya, Uganda, Rwanda, Burundi, and Tanzania (DRC). Goods can travel between these nations duty-free. As long as they adhere to the Rules of Origin Criteria, which were devised and approved by member states, this is a desirable incentive for regional manufacturers of goods.

The TIC Act 1997 categorizes six main incentives of tax relevant to SMEs in Tanzania, namely: Corporate income, VAT, Capital allowances, Import duty, Export duty and Tax holiday. Tax incentives can affect many investments related behaviours of SMEs, notably reducing corporate tax, which implies profit growth to enterprises which makes investment more attractive GroverGoswami, et al. (2019) and promotes the financial stability of the firm. Incentives in capital allowances encourage adequacy depreciation allowances that raise production capacity and contribute to placing SMEs' investments at a competitive advantage (Kijkasiwat and Phuensane, 2020).

Tax holiday incentives, especially in value addition, allow companies that incur losses in early years to use those losses to reduce taxes in later years and reduce the chances of enterprises quitting too early from business operations (Lim et al., 2020). According to Megersa (2019) and Okpeyo et al. (2019), import duties tax incentives are levers which make SMEs focus on the business process by reducing the costs of imported inputs, specifically raw materials, capital goods like equipment and machinery, which constrain the efforts of investments and achieve a predictable degree of performance.

During the construction stage and trial operations, tax incentives are particularly important to enable SMEs to establish themselves and buildup self-reliance. Past research shows that SMEs' growth and success in Asia is linked to tax incentives in corporate incomes, capital allowances, tax rebates, and export and import duties (Xu et al. 2019; Gamage et al. 2020; & Koranteng et al. 2017). Similarly, research in Africa on driving forces for SMEs' growth and performance success are linked with all these tax incentives (Ogwu, 2018; Okpeyo et al., 2019; Twesige and Gasheja, 2019).

The SMEs sector is selected for this study because; the government of Tanzania envisions its economy to be a "middle-income" country by 2025. As such, there have been enormous efforts to promote the private sector and Small and Medium Enterprises like the creation of the Tanzania Investment Center, Tanzania Private Sector Foundation, Small Industry Development Organization etc. Most enterprises have faced problems when it comes to tax payment issues, and some businesses have closed, and the government have held a number of meetings with business owners to discuss the tax hurdles of the government. Although Tanzania's framework is broad in stipulating how the tax system provides tax relief for enterprise development, particularly SMEs in the country, a number of reports and previous studies do not clearly show how tax incentives have contributed to SMEs' growth.

The purpose of Tanzania's tax incentive programmes, according to Twesige and Gasheja (2019), is to entice profitable investment, generate jobs, and boost exports. Despite the fact that related tax provisions are incorporated into the relevant tax legislation, the Tanzania Investment Act of 1997 provides the fundamental foundation for investment promotion. The biggest change in 1997 was the elimination of income tax exemptions outside of export processing zones in favour of capital asset expense and customs duty exemption on capital goods for holders of a Certificate of Investment from the Tanzania Investment Centre (Zee et al., 2002).

Because of the changing ability of taxes, when a nation's tax structure is not effectively created in accordance with the circumstances existing in the specific environment and economy in which the SMEs operate, it may result in a significant tax burden on the taxpaying enterprises in their efforts to grow (Xu et al., 2019). Furthermore, research only examining whether tax incentives affect the growth of SMEs in Tanzania tend to be extremely limited and sparse, despite the significance of sustainability and continuity for SMEs.

2.5 Empirical Literature Review

SMEs Managers are expected to plan and integrate performance development strategies with tax incentive policies in a structured manner for each government incentive so as to keep the goals of the SMEs in mind and aim at optimal utilization of all available resources and opportunities. Tax incentives are measures which can play an important role in the achievement of growth objectives when resources and opportunities are utilized adequately.

A study was conducted by Kusi (2021) to determine how tax administration and tax incentives affected the expansion of small and medium-sized businesses in Ghana's Kumasi Metropolis. The quantitative research approach was used to support an explanatory research design. For the purpose of gathering primary data from 115 SMEs operating in the metropolitan, structured questionnaires were distributed.

The results of the multiple regression analysis showed that whereas tax incentives account for a statistically significant positive moderate variance in the growth of SMEs, tax administration accounted for a statistically significant positive weak variation in the same growth. The predictive association between tax administration and SME expansion is moderated by firm size. Compared to tiny businesses, medium-sized businesses are more likely to comply with tax laws. The growth potential of medium-sized businesses is also greater than that of tiny businesses. The Ghana Revenue Authority was advised to develop preferential tax policies that aid in the expansion of SMEs in Ghana, placing a strong emphasis on tax incentive programmes for small businesses.

Using SMEs in Nyarugenge as a case study, Twesige and Gasheja (2019) conducted a study to examine the impact of a tax incentive on the expansion of SMEs in Rwanda. It was decided to use both qualitative and quantitative research methods. In the Nyarugenge district, there were 49000 SMEs from the agricultural, industrial, service, and tourism sectors. Using the sample size calculation developed by Silovin and Yemen, a sample of 136 SMEs was selected. The sample was chosen using simple random and purposeful sampling methods. A descriptive statistical analysis was performed on the data set. The link between the variables was explained using a multivariate regression analysis. According to the study's findings, 75.7 percent of respondents said they were familiar with tax regulations, and 78.7 percent said they were familiar with the tax breaks offered to small and medium-sized businesses.

The data also showed that wear and tear, loss carried forward, and value-added tax (VAT) rebate were the three tax advantages that Rwandan SMEs could take advantage of the greatest, with percentages of 100, 94.1, and 95.6 respectively. As supported by coefficients of correlation equivalent to 88.8 percent of the R-square, the study found a strong positive and substantial association between tax incentives and the expansion of small and medium firms in Rwanda. This means that only 11.2% of the variation in SME growth was caused by factors not included in the experiment. According to the study's findings, tax incentives are essential for SMEs to grow sustainably. The government should create regulations that particularly address problems with SMEs' long-term expansion.

A study on the impact of tax incentives on the investment of EPZ establishments in Kenya was conducted by Murage (2012). The survey looked at the various tax breaks available to EPZ businesses and how they affected capital expenditures. According to the research, tax incentives improve profit, sales, and business investments. Kuria (2016) investigated the effect of tax incentives on the performance of EPZs in a similarly linked study. The findings showed a positive and significant correlation between corporate income tax investments, excise duty incentives, VAT incentives, and custom duty incentives and the performance of EPZ enterprises as assessed by the total number of employment and ROA. The results from the two studies were similar, but because various performance assessments were used, they were not obvious; therefore, they do not provide sufficient support for an argument.

Rapuluchukwu et al. (2016) investigated how fiscal incentives affected the productivity of Cameroon-based companies. The poll included precise metrics for determining whether a company has benefited from particular categories of tax benefits, such as profit tax exemption, import tariff exemption, and export finance. The study came to the conclusion that the argument for government intervention in business endeavours would lean toward rewarding outcomes, thereby providing a crucial element of industrialization.

In order to investigate the impact of tax incentives on Nigeria's economic progress between 2004 and 2014, Ordu and Owaume (2014) conducted a poll. 51 respondents from management, taxpayers, and employees of specific manufacturing companies in Nigeria's South political zones made up the study's population. The study found that having enough tax incentives boosted business expansion and economic growth, and it suggested that the government eliminate some corporate taxes to help young businesses mature more quickly. The long-term benefits will outweigh any short-term revenue losses, thus the government should not concentrate on them right now.

Biswas et al. (2017); and Diabate et al. (2019) asserted that a competent tax policy on SMEs performance is frequently regarded as having an impact on productivity and financial and marketing performance. Researchers have also shown that effective tax incentives ensure SMEs' operations success more than subsidizing and financially assisting the enterprises.

According to research carried out by Grover et al. (2019), tax incentive has a direct link to SMEs' performance. To Grover et al. (2019), the provision of tax incentives in the areas of capital allowance tax and export duty incentives are directly linked to the success of SMEs' growth objectives. Grover et al. (2019) also discovered that governments which provide entrepreneurs with tax exemptions relieve them from the stringent constraints of committing investment resources beyond the estimated effects of tax incentives by inspiring and motivating productivity.

2.6 Research Gap

Extant literature has covered studies on country policies of tax incentives on SMEs growth to some extent (Tee et al., 2016; Suebs et al., 2018; and Wangu et al., 2018). However, these studies focused on other parts of the country's economies with limited attention on East Africa and Tanzania in Particular. The absence of adequate studies in Tanzania's geographical region, specifically Arusha, creates a substantial research gap which demands attention. This study investigates the effects of tax incentives on the growth of SMEs in Tanzania to address this gap. Studies reviewed had various reflections on tax incentives. For example, Kusi (2021) examined the effect of tax administration and tax incentives on the growth of SMEs in Ghana, Twesige and Gasheja (2019) analysed the effect of tax incentives on the growth of SMEs in Rwanda, Murage (2012) examined the effect of tax incentives on EPZ investments in Kenya, Wangechi (2014) ascertained the effect of taxation on SMEs growth in Kenya, Rapuluchukwu et al. (2016) examined the effects of fiscal incentives to the productivity of firms in Cameroon, Onyango (2015) explored the influence of tax incentives on the performance of four-star hotels in Kenya and Ordu and Owaume (2014) examined the effect of tax incentives on economic development of Nigeria. It is found that none of the studies was conducted in Tanzania regarding the effects of tax incentives on the growth performance of SMEs. This is the research gap intended to be filled by this study.

Previous studies done in Tanzania have not investigated the effects of tax incentives implementation on SMEs detailed from specific organizations. A study by Maya (2019) made an appraisal of tax incentives on the investment regime in Tanzania. The study has partially shown the role of tax incentives in relation to attracting investment, and no specific study has been conducted on SMEs' growth. The study by May found that tax incentives do not attract investments and are contributing to revenue losses, while investment in the economy is attracted by other factors like market opportunities and resources. However, the study findings have not shown whether the tax incentives contribute to SMEs' growth or not. OPRAS engage supervisors effectively in evaluating employees' performance.

As demand in the two decades (2000- to present) of business communities in Africa from the governments seems to focus on the relationship between taxation policy for large companies and SMEs. Therefore, SMEs specifically were facing strong expectations for the public sector to become a key player when tax policy incentives are implemented. Previous research also investigated South Africa, Ghana and Rwanda, though not wide on tax incentives and SMEs growth, giving inconclusive results or even contradictory. Consequently, researchers have concluded that more research is needed in that area (Megersa, 2019; Repuluchukwu, 2016 and Masanja, 2019).

In the context of Tanzania, the Tax incentive Act (2002) explains that the tax incentive role in the performance of entrepreneurship in the economy is critically important. The act identifies five major areas of significance to SMEs' enhancement of financial, production, and marketing growth performance: corporate profits, capital allowances, import duties, export duties, and tax rebates, as stipulated in the study (Maya, 2019). However, in the empirical studies, because there are no discussed effects of tax incentives on SMEs growth, then it follows that the contribution of tax incentives is unknown in Tanzania. Hence, the study was conducted to uncover the gaps by investigating the effects of SMEs' growth performance by focusing on the Arusha City Council as a case study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the methods and techniques that were used to carry out the study. It covers the following: research design, the population of the study, the area of study, sampling design and sampling size, data collection tools, the validity and reliability of data, data gathering procedure, data analysis, and ethical considerations.

3.1 Study Area

This study was conducted in Arusha City Council, Tanzania focusing on SMEs. The reason for conducting the study in this area is that Tax incentives in developing countries such as Tanzania are rather limited, thereby failing to attract investment in SMEs (Abbas et al., 2012). Besides, the lack of or minimal tax exemptions for SMEs in Tanzania hinders the SMEs' expansion drive and growth potential compared with those in the advanced economies (Ameyaw et al., 2016). Okpeyo, et al. (2019) found that medium enterprises pay more taxes than small enterprises. Lokhande (2020) found that people believe that small firms bear higher tax compliance costs if not provided with incentives than larger companies hence having a higher default risk of non-payment. These findings are contradictory and need further investigation. It is from this background that this study assesses the effects of tax incentives on the growth of SMEs in the Arusha City Council.

3.2 Research Design

The study utilized a cross-sectional research design. The cross-sectional design is especially useful in situations where the contextual conditions of the event being studied are critical and where the researcher has no control over the events as they unfold (Creswell, 2018). Research design is needed because it facilitates the smooth sailing of the various research operations (Saunders et al. 2017).

3.2.1 Research Approach

The research used a mixed approach with both qualitative and quantitative approaches. The qualitative approach aims to explore and discover issues about the problem at hand because very little is known about the problem (Cresswell, 2018). According to Saunders et al. (2017) qualitative approach is designed to help researchers understand people and the social and cultural contexts within which they live and work. With a qualitative approach, different knowledge claims, enquiry strategies and data collection methods and analysis will be employed. Qualitative data sources include observation and participant observation (fieldwork), interviews, documents and texts, and the researcher's impressions and reactions (Cresswell, 2018). Yet, the study utilized an in-depth interview.

Further, the quantitative approach makes use of questionnaires, surveys and experiments to gather data that is revised and tabulated in numbers, which allows the data to be characterized by the use of statistical analysis (Saunders et al., 2017). This study utilized questionnaires. Quantitative researchers measure variables on a sample of subjects and express the relationship between variables using effective statistics such as correlations, relative frequencies or differences between means; their focus is, to a large extent, on the empirical testing of theory (Cresswell, 2018).

While the quantitative approach presents statistical results represented by numerical or statistical data, the qualitative approach presents data as descriptive narration with words and attempts to understand the phenomena in natural settings.

3.2.2 Target Population

In this study, the target population included 2800 formal SMEs operating in Arusha City Council. The target population of the study is comprised of entrepreneurs/managers from selected SMEs operating their businesses in various areas of agriculture, food service, tourism, wholesale, and communication. Arusha City Council has a total of 2800 formal and legal SMEs. All the mentioned categories of respondents' SMEs are selected to ensure that the selected entities have a population which interacts with information and resources related to tax incentives. This is especially when the respondents perform their financial, production and marketing activities in Tanzania, particularly Arusha City Council. This is to enable the researcher to collect enough data from the respondents (Sekaran, 2003 & Kothari, 2004).

3.2.3 Sampling Strategies

The study employed a probability sampling technique for the study that intended only for entrepreneurs/managers owning and operating business activities. The main activities selected are six categories: agribusiness, food processing, wholesale, tourism, medical services and communication. From the probability sampling technique, the study used simple random sampling in selecting 25 respondents from agribusiness, 17 respondents from medical services, 17 respondents from food processing and 14 respondents from wholesales. Also, 12 respondents from tourism and 12 from communication SMEs as demonstrated by the sample size calculations to form the sample size of 97 respondents. Entrepreneurs/ managers occupy a better position in interpreting questionnaires of tax incentives and possess detailed information, and are familiar in terms of the experiences of tax incentives and SMEs practices and performance, as explained by (Yogi 2017).

i) Sample Size

A sample is a part of the population from which it was drawn (Saunders et al., 2017). A sample of 97 respondents was selected from the population. The Yamane (1967) formula is applied in determining the appropriate portion of respondents to represent the study population. Where *n* is the sample size, *N* is the total target population, in this case, the 2,800-population size obtained, and *e* is the error rate in this case 10%. In Social Science research, sample size calculation allows a confidence level of 90 to 95 percent, consequently, a P value of 0.1 to 0.5 respectively (Yamane, 2010). To be specific, a researcher in this study used a confidence level of 90% and a P-value of 0.1. The sample size for this study was calculated as shown below.

$$n = \frac{N}{1+N(e)^2}$$

N = the Total Population

e = the margin of error (as the P-value is 0.1, then a 10% error rate has been used to obtain the best sample given the population size)

n = the sample size

$$n = \frac{2,800}{1+2,800(0.1)^2}$$

n = 96.55

Therefore, the sample size is 97 respondents.

ii) Sampling Procedures

In this study, a purposive sampling procedure with a non-probability technique was applied. The sampling technique is the strategy used to select people, places or things to study in the target area (Cresswell, 2018) to represent the targeted population. The respondents to be chosen are the ones who possess key information regarding the matter in order to attain the study objectives. A purposive sampling technique was used to select respondents due to their knowledge of the matter. For that case, in each of the selected representatives of the SMEs, either the owner/entrepreneur or manager qualified for data collection.

Table 2: Population Distribution by Categories of SMEs

S/N	SMEs Category	Target Population	Sample	Sampling Procedure
1.	Agribusiness	721	25	Purposive
2.	Food Processing	461	17	Purposive
3.	Tourism	375	12	Purposive
4.	Medical services	461	17	Purposive
5.	Wholesales	407	14	Purposive
6.	Communication	375	12	Purposive
	TOTAL	2800	97	Purposive

Source: Researcher's Field data (2022)

Table 1 shows the population distribution by category to which SMEs belong in Arusha City Council, where the target population is 2800, and the sample size is 97 respondents. The Sampling procedure used is purposive sampling for the study.

3.2.4 Data Collection Methods or Tools

In this study, primary data were collected through questionnaires and interview guides. A researcher designed open and close-ended questions for each of the objectives in the study. Questionnaires instruments were delivered to managers and owners of SMEs through their emails and hand. Data were collected through an in-depth interview with the entrepreneurs/managers of SMEs in Arusha City Council, who were grouped in ten batches of 9-10 members each.

3.3 Pilot Study

This involved pre-testing of tools before field data collection. The tools to be tested included questionnaires and an interview guide to a few samples before actual data collection. A pilot test can be administered to 20 respondents from among the targeted 2800 SMEs operating in Arusha City Council. The results can be coded into the SPSS program to establish Cronbach's alpha, which has the purpose of confirming the internal consistency of the questionnaire items. If the computed Cronbach's alpha coefficient of all the variable measures is above the minimum level of 0.5, the instrument is said to be reliable and, therefore, acceptable for data collection.

3.4 Data Processing, Analysis and Presentation

In this respect, the data processing was performed by searching for commonalities of tax incentives and SMEs growth performance components, contrasts and comparisons, which led to a physical reduction of data and enabled the creation of coding categories and labels of data and their relationships. The perception values of the effect relationships were evaluated in the information of questionnaires filled by respondents in the 97 SMEs. This technique led to producing summaries and abstracts and finding ways of displaying the results and drawing conclusions.

Step 1: Organizing and Preparation for Data Analysis—this involves transcribing key informant questionnaires. So, the data was organized into three computer folders. Each folder was labelled to represent one research question.

Step 2: Reading through all the Data—In order to get a general sense of the whole, the researcher read everything; at this point, it is interesting to check whether the qualitative findings amplify quantitative findings.

Step 3: Perform the Coding Process—The coding process is the hallmark of qualitative research designs. It involves labelling the raw materials into meaningful 'chunks' or 'flags' which later are used in the constant comparative method. Powell and Connaway (2014) have argued that the constant comparative method is the most effective means of content analysis. The authors add that it has four stages, namely, comparing incidents applicable to each category, integrating categories and their properties, delimiting theory and lastly, writing the theory.

As noted earlier, the importance of coding cannot be over-emphasized. The study used open coding, which is usually the foundation of all coding. It did not use selective coding because the established categories are all important.

Open coding is done first by establishing the themes for each research question. This is the key idea in each research question. Since the research questions are three, the overall themes are three namely, the kinds of tax incentives provided by the government to SMEs, perception of the effects of tax incentives on SMEs' growth, and ways each tax incentive affects SMEs' growth. Further coding was done to establish chunks of meanings.

After data processing, the researcher embarked on a data analysis process which involved identifying common views from the respondents' descriptions of their experiences. The responses to the close-ended items were assigned codes and labels. Frequency counts of the responses were obtained to generate information about the respondents and to illustrate the general trend of findings on the various variables that are under investigation (Saunders et al., 2017).

The data collected through a questionnaire (quantitative data) were subjected to descriptive analysis through Statistical Package for Social Sciences (SPSS), and themes developed from interviews (Hair et al., 2014). The qualitative data were analyzed through content analysis following the themes and sub-themes developed in the collected information (Cresswell, 2018).

Content analysis involves transcribing all information from verbal discussions with informants followed by breaking the recorded information into meaningful smallest units of thematic information, subjects and tendencies and presented as a text. The following are the steps of data analysis to be used.

Step 1: Conduct Description. At this stage, the researcher draws a table in order to get more descriptive and analytical characteristics of the sample. For qualitative analysis, presentations used tables. Each table has five columns. The first column is labelled themes, and the second column is labelled sub-themes. The third column is labelled quotations—here, there is a selection of the best verbatim quotes to represent a coded sub-theme, which relates to the overall theme. The fourth column is called findings-this so important because it syntheses the overall finding under a particular theme or sub-theme. The last column is called references; it bears symbolic expressions of respondents. This is done with the intention of complying with research ethics which demands anonymity.

Step 2: Advance the Description of Themes—Here was to first draft qualitative data analyses, which were written in a narrative form, based on objectives.

Step 3: Capture the Final Interpretation of Data—Since this is the last step, the researcher worked out the earlier draft of the analysis by re-reading and editing. Moreover, the researcher looked for conceptual connections from scholarly published works and duly citations.

For quantitative data, the data collected were cleaned, sorted and coded into the computer (SPSS) and statistically analysed. Since the study employs the mixed methods paradigm, then descriptive and inferential statistics were used to analyse the quantitative data. Statistics to be used are frequency, the strength of the relationship and the structure (tendency) of the variable's relationship in the sample. Data concerning the demographic characteristics of respondents were descriptively analysed by frequencies and percentages on the effects of tax incentives on SMEs' growth variables (finance, production and marketing).

3.5 Validity and Reliability

3.5.1 Validity

Validity is defined as the instrument's ability to measure exactly what concept it is supposed to measure (Cresswell, 2018). It also refers to the credibility or believability of the research. In order for the researcher to validate the data and instruments (in-depth interviews and questionnaires) to be used in the research asked, the experts to recommend their representativeness and suitability. Besides, he allowed suggestions to be made to the structure of the questions, as argued by Saunders et al. (2017).

The validity of the instrument was ensured by the use of the following strategies: the researcher computed the validity coefficient using the content validity index (CVI), which considers the items declared valid over the total items declared invalid. Theoretically, the minimum value of the validity measure should be 0.5. And the CVI index in the questionnaires was found to be far greater than the critical minimum value of 0.5, confirming that the instrument is valid and excellent (Madondo, 2015). The validity coefficient value is obtained using the formula below:

$$\mathrm{V} = \frac{\mathrm{CVI}}{\mathrm{TI}}$$

Where CVI = number of items declared valid

TI = total number of items

3.5.2 Reliability

Reliability refers to the consistency of a research study or measuring test or the repeatability of findings. If findings from the research are replicated consistently, they are reliable. To ensure repetitive reliability test was used, and the results were observed for consistency. A correlation coefficient can be used to assess the degree of reliability. If a test is reliable, it should show a high positive correlation (Cresswell, 2018). In this study pilot study will be carried out to test the interview guide and questionnaires in the respective study area for their reliability; afterwards, corrections will be done in order to obtain reliable data for the research. Since the reliability of data goes with the accuracy or precision of a measuring instrument, in this research study, reliability was concerned with the questions' consistency of responses in repeated measurements (Saunders et al., 2017).

The results were coded into the SPSS program to establish Cronbach's alpha, which has the purpose of confirming the internal consistency of the questionnaire items. The findings are depicted in Table 2 below.

Table 3: Reliability Statistics

Variables	Measures	Cronbach Alpha Coefficients
Corporate tax incentives	Profit benefits of SMEs	0.91
	Capital formation of SMEs	0.93
	Production costs reduction of SMEs	0.82
Capital allowance tax incentives	Resource attraction of SMEs	0.89
	Investment attraction of SMEs	0.84
	Subsidy of production cost of SMEs	0.88
Export duty allowance	Access to the market of SMEs	0.86
	Marketing cost reduction of SMEs	0.83
	The competitive advantage of SMEs	0.91
Import duty allowance	Access to foreign resources of SMEs	0.92
	Access to the market of SMEs	0.79
Tax rebates	Reduction of production costs of SMEs	0.78
	Surplus generation of SMEs	0.89
	Capital formation of SMEs	0.82

Source: Researcher's Computation (2022)

Since the computed Cronbach's alpha coefficients of all the variable measures were observed to be above the minimum level of 0.7, the instrument is said to be reliable and, therefore, acceptable for data collection.

3.6 Ethical Considerations

Ethical issues were considered for the purpose of notifying participants of issues to be done. The researcher sought permission from the directors of postgraduate studies at the Institute of Accountancy Arusha to present it to the SME offices. Moreover, in every stage of collecting data, the researcher showed the permission given, explained the purpose and asked the respondents to assist in carrying out the study in their respective companies. The researcher also sought specific consent among participants while assuring them confidentiality on issues asked. No respondent was denied to withdraw in case one feels otherwise.

For dependable and relevant primary data collection, through the data collection procedures that were followed before, during and after the data collection process, approval to conduct research was sought from the office of the SMEs. Further still, letters of consent were written to the respondents with the intention of requesting their participation. The respondents were briefed about the study and requested to sign the informed consent form. On retrieval of the raw data, all returned questionnaires were subjected to thorough checking to ascertain if all were well filled.

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

4.0 Introduction

This chapter presents the findings and discussion. Data presentation is organized based on the study objectives, namely (i) To identify the kinds of tax incentives provided by the government to SMEs in Tanzania, particularly SMEs of Arusha City Council. (ii) To determine the perceptions of SME owners on the effects of each tax incentive on the financial, production, and marketing growth performance of SMEs in Tanzania, particularly SMEs of Arusha City Council. (iii) To analyze the ways through which tax incentives affect SMEs' financial, production and marketing growth performance in Tanzania, particularly SMEs of Arusha City Council.

4.1 Presentation of Findings and Discussions

In order to obtain in-depth information for the present study, a questionnaire was administered to a group of 97 respondents comprising 25 respondents from agribusiness, 17 respondents from medical services and 17 respondents from food processing. Also, 14 respondents from wholesales, 12 respondents from tourism and 12 respondents from communication SMEs; results are presented according to research objectives.

4.2.1 Demographic Characteristics of Respondents

According to Table 3 results of respondents, the highest age group of respondents are in the (35-44 years) constituting 32 which is 32.9%, followed by the (45-54 years) age group constituting 28 which is 28.9%. Frequency refers to the number of times a value is repeated, and frequencies are commonly used in the analysis of categorical data. Frequencies provide a raw count of each value; the findings suggest that more middle age groups were involved in the study than their counterpart. This was in accordance with the sample where the percentages are in accordance with the proportion of age group distribution.

Table 3 presents the sex of the respondents involved in this study. Results indicate that 55 percent of all respondents were males and 45 percent were female.

According to the table results of respondents, the male respondents are 62, which is 63.92%, and females are 35, which is 36.08%. The findings suggest that more males were involved in the study than their counterparts. This was in accordance with the sample where the percentages are in accordance with the proportion of sex distribution.

According to the table results of respondents, the majority of the respondents are bachelor's degree holders, which is 31.95%, followed by diploma holders 22.68% and master's degree holders (21.65%). The findings suggest that more participants (owning and operating small and medium enterprises in the study were educated elite who were involved in the study than their counterpart respondents.

According to the table result of respondents, the majority of the respondents run companies with limited liability but not listed in the stock exchange market, which is 46.39%, followed by sole proprietorships 18.56% and family-owned businesses (16.49%). The findings suggest that few participants (owning and operating small and medium enterprises in the study were partnerships with few other individuals (11.34%) and limited liability companies listed in the stock exchange market (7.22%).

Table 4: Respondents' Characteristics

Characteristics	Items	Frequency	Percentages
	< 28 Years	5	5.1
	28-34 Years	14	14.4
	35-44 Years	32	32.9
Age	45-54 Years	28	28.9
	>55 Years	18	18.7
Sex	Male	35	36.08
	Female	62	63.92
	Informal	-	-----
	Bachelor's Degree	31	31.96
	Diploma	22	22.68
Education	Master's Degree	21	21.65
	Certificate	13	13.42
	Others	3	3.45
	Sole proprietorship	18	18.64
	Partnership	11	11.36
	Ltd & DSE listed	45	45.18
Current ownership	Ltd with DSE Listed	7	07.27
	Family owned	16	16.1

Source: Field Data, 2022

Table 4 summarizes key sectors to which SMEs belong and the applicable tax incentives (that is, corporate income tax, capital allowance tax, export duty, import duty, and tax rebates). The manufacturing sector constituted 18.6% of all respondents, and the agriculture sector had 13.4% of all respondents. The majority of SMEs with long years of experience belong to the Manufacturing and finance sectors, with 7.5 years and 7.4 years, respectively.

From Table 4, it is evident that manufacturing, agriculture, tourism and services receive a relatively more number of tax incentives of both corporate income tax, capital allowance, export duty, import duty, and tax rebates. Therefore, there is a need to continue improving the business environment by broadening the coverage of sectors and the number of beneficiaries of tax incentives operating in Arusha City Council.

Table 5: Key Sectors Category and Applicable Tax Incentives for SMEs

Source: Field Data, 2022

4.2.2 Description of Variable Measures Used in the Study

SMEs Sector	Retail trading	Manufacturing	Real Estate	Agriculture	Finance/Fintech	Hospitality(Tourism,	Construction	Information Tech	Services	Export	Others
Tax incentive	X	XXXXX		XXXX	X	XX	XX	X	XXX	X	
Corporate income tax		15		11	5	8	5	3	7	4	
Capital allowances	9	15		10	4	7	3	4	2	6	
Export duty Incentive		12		7					6	6	
Import duty incentive		5		11		4			6		
Tax rebates		8		5		6			7	4	

In the survey, each tax incentive was comprised of several factors which explain the direct effects of an independent variable (particular tax incentive) on SMEs' financial and marketing performance. The respondents rated the importance of each direct effect from one to five (most to least important). Thus, the importance of each direct effect is calculated by taking the mean of all the sub-effects measures. For example, the corporate income tax incentive comprises four sub-effects measures: the realisation of the profits, continuing doing business, the compensation of loss and increased capital formation. The importance of the corporate income tax incentives factor is derived from the average scores of the four sub-effects measures; then, by comparing the importance rating of the corporate income tax incentive with those of the three other influencing tax incentives, the importance ranking of the influencing tax incentives is determined. The following is presented descriptive results of all variables used in the study according to SPSS analysis.

Table 6: Descriptive Statistics for the Eight Variables used in the Study

Variables	N	Mean	Std. Deviation
The corporate income tax incentive	97	2.3311	.47218
The capital allowance tax incentive	97	2.4333	.54854
Export duty allowance	97	2.8636	.79812
Import duty allowance	97	2.6225	1.00493
Tax rebates	97	2.2185	1.28007
Financial growth	97	2.9265	1.01290
Productivity growth	97	3.0867	.94077
Marketing growth	97	2.8854	1.09181
Valid N (listwise)	97		

Source: Field Data, 2022

With respect to the variables in the study, all the variables had a strong impact on both respondents since the mean was far above 2.0 given a five-point Likert scale in table 4.9. The variables had a small deviation from the mean, an indication of homogeneous scores. Looking at the variables' mean scores, it can be observed that respondents felt that tax rebates were minimal (mean = 2.2185) and export duty allowance had a greater impact. Furthermore, respondents identified productivity growth as the most impacted variable (mean = 3.0867), followed by financial growth (mean =2.9265) and marketing growth (mean = 2.8854).

4.3 Presentation of Findings According to Research Objectives

4.3.1 Research Objective One

To identify the kinds of tax incentives provided by the government to SMEs in Tanzania, particularly SMEs of Arusha City Council

The following section presents results for research question one to address research objective one, which guides the study. It should be noted that research objective one was basically addressed descriptively. However, the objective is further expounded in the qualitative section using interviews.

Table 7: Descriptive Results of Kinds of Tax Incentives Applicable to SMEs Operating in Arusha City Council

Kinds of Tax incentives	N	Mean	Std. Deviation
Receives income tax exemption	29	3.3311	.47218
Receives capital allowances	13	2.0333	.54854
Receives export duty incentives	18	3.4636	.79812
Receives import duty incentives	17	2.2225	.90493
Receives tax rebates incentives	08	1.9185	.98007
Receives more than one form of tax incentives	34	2.0265	.91290
I do not receive any for tax incentive	08	2.0867	.94077
Valid N (listwise)	97		

Source: Field Data, 2022

With respect to the variables in the study, all the variables had a strong impact on both respondents except capital allowances and tax rebates. The strong impact rating comes from the fact that the mean was far above 2.0, given a five-point Likert scale in table 4.10. The variables had a small deviation from the mean, an indication of homogeneous scores. Looking at the variables' mean scores, it can be observed that respondents felt that capital allowances incentives and tax rebates were minimal (mean = 2.0333 and 1.9185), respectively. Conversely, of the five tax incentives, export duty and corporate income tax incentives are the leading (mean = 3.4636, 3.3311, and 2.2225), respectively.

According to the results in table 6, it was observed that 29 SMEs in the study out of 97 received corporate income tax incentives equivalent to 29.89 %, and 13 received capital allowance tax incentive equivalent to 13.4 %. Moreover, 18 received export duty tax allowance equivalent to 18.55 %, 17 received import duty equivalent to 17.53 %, 08 (8.45 %) received tax rebates and 04 (4.12 %) received other forms of tax incentives, while only 08 (8.45 %) said did not receive any form of tax incentives mentioned in the study.

4.3.2 Research Objective Two

To determine the perceptions of SME owners on the effects of each tax incentive on the financial, production, and marketing growth performance of SMEs in Tanzania, particularly SMEs of Arusha City Council.

The following section presents results for research question two to address research objective two, which guides the study. It should be noted that research objective two was basically addressed descriptively. However, the objective is further expounded in the qualitative section using interviews.

Corporate income tax incentive effects on SMEs growth

Table 8: Descriptive Results of Effects of Corporate Income Tax Incentives on Growth

Factor Variable	N	Mean	Std. Deviation
Financial growth	29	3.4311	.87218
Productivity growth	28	2.6333	.94854
Marketing growth	22	3.2636	.99812
Others	12	2.0867	.94077
Valid N (listwise)	29		

Source: Field Data, 2022

With respect to the variables in the study, all the variables of corporate income tax incentives had a strong effect on both the financial, productivity and marketing growth of SMEs. The strong effect rating comes from the fact that the mean was far above 2.0, given a five-point Likert scale in table 7. The variables of SMEs' growth performance had a small deviation from the mean, an indication of homogeneous scores. Looking at the variables' mean scores, it can be observed that respondents felt that corporate income tax incentives had a strong effect on financial and marketing growth (mean = 3.4311 and 3.2636), respectively. Conversely, of the three SMEs' growth performance, corporate income tax incentives had minimal effect on productivity growth (mean = 2.6333), as demonstrated in table 7.

Capital allowance incentives on SMEs growth

Table 9: Descriptive Results of Effects of Capital Allowance Tax Incentives on SMEs' Growth

Factor Variable	N	Mean	Std. Deviation
Financial growth	17	2.1311	.87218
Productivity growth	25	2.9333	.94854
Marketing growth	22	2.2636	.99812
Others	12	2.0867	.94077
Valid N (listwise)	27		

Source: Field Data, 2022

With respect to the variables in the study, all the variables of capital allowance tax incentive had a strong effect on both financial, productivity and marketing growth of SMEs. The strong effect rating comes from the fact that the mean was far above 2.0, given a five-point Likert scale in table 8. The variables of SMEs' growth performance had a small deviation from the mean, an indication of homogeneous scores. Looking at the variables' mean scores, it can be observed that respondents felt that capital allowance tax incentives had a strong effect on productivity, marketing and financial growth (mean = 2.9333, 2.2636, 2.1311), respectively. Conversely, of the three SMEs' growth performance, capital allowance tax incentive had minimal effect on financial growth (mean = 2.1311), as demonstrated in table 8.

Export duty incentives on SMEs growth

Table 10: Descriptive Results of Effects of Export Duty Incentives on SMEs' Growth

Factor variable	N	Mean	Std. Deviation
Financial growth	17	1.1311	1.87218
Productivity growth	25	2.9333	.94854
Marketing growth	22	2.2636	.99812
Others	12	2.0867	.94077
Valid N (listwise)	47		

Source: Field Data, 2022

With respect to the variables in the study, all the variables of export duty incentive had a strong effect on both the productivity and marketing growth of SMEs but a weak effect on financial growth. The strong effect rating comes from the fact that the mean was far above 2.0, given a five-point Likert scale in table 9. With the exception of financial growth, the other variables of SMEs' growth performance had a small deviation from the mean, an indication of homogeneous scores. Looking at the variables' mean scores, it can be observed that respondents felt that export duty incentives had a strong effect on productivity and marketing growth (mean = 2.9333 and 2.2636), respectively. Conversely, of the three SMEs' growth performance, export duty incentive had minimal effect on financial growth (mean = 1.1311), as demonstrated in table 9.

Import duty incentives on SMEs growth

Table 11: Descriptive Results of Effects of Import Duty Incentives on SMEs Growth

Factor Variable	N	Mean	Std. Deviation
Financial growth	13	1.1311	1.87218
Productivity growth	15	2.9333	.84854
Marketing growth	12	1.2636	1.99812
Others	12	2.0867	.94077
Valid N (listwise)	32		

Source: Field Data, 2022

With respect to the variables in the study, all the variables of import duty incentive had a strong effect on the productivity growth of SMEs but a weak effect on financial and marketing growth. The strong effect rating comes from the fact that the mean was far above 2.0, given a five-point Likert scale in table 10. With exception to productivity growth, the other variables of SMEs' growth performance had large deviations from the mean, an indication of heterogeneous scores. Looking at the variables' mean scores, it can be observed that respondents felt that import duty incentives had a strong effect on productivity growth (mean = 2.9333). Conversely, of the three SMEs' growth performance, import duty incentives had minimal effect on financial and marketing growth (mean = 1.1311 and 1.2636), respectively, as demonstrated in table 10.

Tax rebates incentives on SMEs growth

Table 12: Descriptive Results of Effects of Tax Rebates Incentives on SMEs' Growth

Factor Variable	N	Mean	Std. Deviation
Financial growth	18	1.1311	.87218
Productivity growth	17	1.6333	.84854
Marketing growth	14	1.2636	.99812
Others	19	1.0867	.94077
Valid N (listwise)	19		

Source: Field Data, 2022

With respect to the variables in the study, all the variables of tax rebates incentive had a minimal effect on both productivity, financial and marketing growth of SMEs growth (mean = 1.1311, 1.6333 and 1.2636) respectively, as demonstrated in table 16.

4.3.3 Research Objective Three

Analyzing the ways through which tax incentives affect SMEs' financial, production and marketing growth performance in Tanzania, particularly SMEs of Arusha City Council.

Tax incentives are laid down in the policy setting of the country investment Act 1997 and the amended Act 2002. The incentives are critical government programs, processes, or instruments to create an environment which is conducive to country enterprises' growth. In order to fulfil these objectives, respondents rated the different ways through which tax incentives implemented have been contributing to SMEs' growth.

Table 13: Ways Corporate Tax Incentive Affects SMEs' Growth Performance

Corporate Tax Incentive	**Capital Allowance**	**Export Duty Incentive**	**Import Duty Incentive**
Profits realization	Attracting investment	Access to markets	Acquisition of resources
Continue doing business	**Competitive advantage**	**Competitive advantage**	**Decline in production costs**
Compensate losses	Decline in production costs	Increase in sales volume	Increased production
Increase in capital formation			

Source: Researcher, 2022

Table 14: Tax Incentive Effects on SMEs' Performance

	Corporate income tax				Capital allowance			Export duty			Import duty		
	PR	CDB	CL	ICF	AI	ICA	RPC	AMA	ICA	ISV	RA	RPC	IPV
Valid value	58	54	55	52	56	54	53	56	55	54	51	57	53
Missing value	0.00	4.00	3.00	6.00	2.00	4.00	5.00	2.00	3.00	4.00	7.00	1.00	5.00

Mean	2.68	3.82	2.26	1.86	2.49	2.12	2.68	3.21	2.94	1.96	2.01	1.88	2.34
Median	3.00	2.00	2.00	2.00	3.00	3.00	2.00	3.00	3.00	2.00	2.00	3.00	2.00
Mode	2.00	3.00	2.00	3.00	1.00	2.00	1.00	2.00	3.00	1.00	1.00	2.00	1.00
Std. devi.	0.91	1.11	1.05	0.79	1.04	0.93	1.07	1.02	0.94	1.03	0.88	0.79	1.01
Var (X)	1.72	1.66	0.83	1.15	1.23	0.87	0.98	1.15	0.54	0.51	1.08	1.24	0.77
Total Scores	126	121	122	118	121	124	119	120	117	119	125	123	119

*Respondents were asked to rate the importance of each direct effect of tax incentive from 1 to 5, from most to least important

** The lower the score, the more important the direct effect of a tax incentive on SMEs' performance.

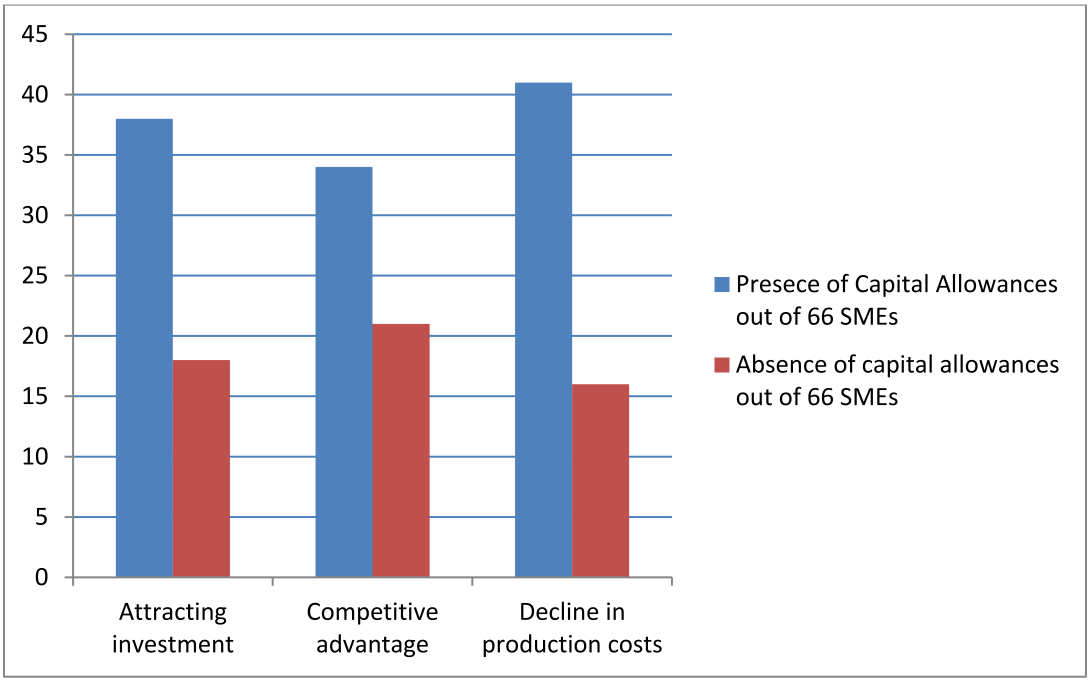
*** PR= Profit realization, CDB= Continuing Doing Business, CL= Compensating Loss, ICF = Increased Capital Formation, AI= Attracting Investment, ICA= Increased Competitive Advantage, RPC= Reduction in Production Costs, AMA= Access to Markets Abroad, ISV= Increased Sales Volume, RA= Resource Acquisition, IPV= Increased Production Volume.

**** The mean of the tax incentive variable is the average mean values of the direct effects of each tax incentive variable. For instance mean of corporate income tax is the average of the mean values of (PR, CDB, CL and ICF).

According to survey results, the respondents value the corporate income tax the most in continuing to do business, with a rating of 3.82 mean value, followed by profits realization effects with a rating of 2.68, and increased capital formation with a rating mean value of 2.26. Most respondents determined whether corporate tax incentives compensate for the loss in business (see Table 13) were rated with the mean value of 1.87 below 2.0. This is not surprising, considering that 26 out of the 58 percent of respondents received corporate income tax incentives cite experienced economic losses in the past five years, and it is in these years whereby tax administration in the country has been changing (Okpeyo, 2019).

The corporate tax incentive is measured in terms of how the business entity realizes increased profits in the presence of corporate tax compared to the profits realized during the absence of corporate profits in the SME. Out of 97 surveyed SMEs, 58 have operated for 10 years and received corporate tax incentives for at least four recent years. From the 58 SMEs, it was observed that 67% of the surveyed SMEs realized more profits increase during the tax incentive receiving period than in the absence of tax incentive. Of the 58 SMEs benefiting from corporate tax incentives, 47 (equivalent to 81%) operators of the SMEs in the questionnaire indicated that they could have left the business if tax incentive could not be granted in the past five years. Furthermore, 26 SMEs out of the 58 beneficiaries of corporate tax incentives (equivalent to 44.8%) surveyed in the questionnaire indicated suffering economic losses, which the tax incentive had to compensate. The corporate income tax incentive contributes to the capital formation through the reduction of total production costs whereby firms have been able to commit some surplus to savings; this is revealed by 31 (equivalent to 53%) operators of SMEs surveyed in the questionnaire. Figure 2 illustrates the effects of tax incentives on SMEs due to the benefit from corporate profit tax incentives compared to the absence of corporate profit tax incentives.

Figure 2: Experience of Capital Allowances for Beneficiaries SMEs out of 66



Source: Field Data, 2022

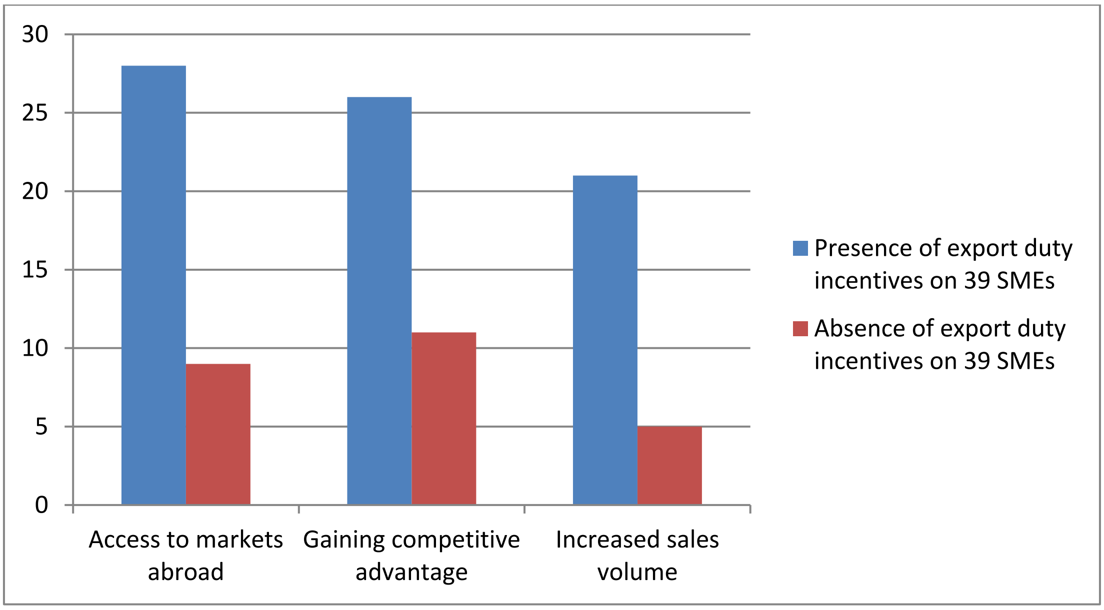
Furthermore, according to survey results, the respondents value the export duty incentive differently; the most in promoting access to markets abroad, with a rating of 3.21 mean values, followed by increasing competitive advantage effects with a rating of 2.94, and increased sales volume with the rating mean value of 1.96 below 2.00 (see Table 13).

Export Duty incentive is measured in terms of how the business entity realizes productivity, marketing and financial performance in the presence of export duty incentives compared to the performance during the absence of the export duty incentives in the SMEs. Out of 97 surveyed SMEs, 39 have operated for 7 years and received export duty incentives for at least the recent past five consecutive years. From the 39 SMEs, it was observed that 28 SMEs (equivalent to

72%) of the surveyed SMEs increased access to markets abroad during the tax incentive receiving period than in the absence of tax incentive. Of the 39 SMEs benefiting from export duty incentives, 26 (equivalent to 67%) operators of the SMEs in the questionnaire indicated that they had been supported on competitive advantage through export duty incentives in the past five years. Furthermore, 21 SMEs out of the 39 beneficiaries of export duty incentives (equivalent to 54%) surveyed in the questionnaire indicated experiencing a significant increase in sales volume.

Figure 4 illustrates the effects of tax incentives on SMEs' growth due to the benefit from export duty incentives compared to their absence.

Figure. 3 Experience of Export Duty Incentives for Beneficiaries SMEs out of 39 in the Study



Source: Field Data, 2022

In addition to that, according to survey results, the respondents value the import duty incentive differently; the most in increasing production, with a rating of 2.34mean values, followed by enhancement of resource acquisition, with a rating of 2.01 mean values, followed by reduction of the production cost effects with a rating of 1.88 below 2.00 (see Table 13).

Import Duty incentive is measured in terms of how the business entity realizes productivity, marketing and financial performance in the presence of import duty incentives compared to the performance during the absence of the import duty incentives in the SMEs. Out of 97 surveyed SMEs, 39 have operated for 7 years and received import duty incentives for at least the recent past five consecutive years. From the 39 SMEs, it was observed that 26 SMEs (equivalent to 67%) of the surveyed SMEs increased resource acquisition during the tax incentive receiving period than in the absence of tax incentive. Of the 39 SMEs benefiting from import duty incentives, 24 (equivalent to 62%) operators of the SMEs in the questionnaire indicated that they have been supported in the reduction of production costs through import duty incentives in the past five years. Furthermore, 232 SMEs out of the 39 beneficiaries of import duty incentives (equivalent to 82%) surveyed in the questionnaire indicated experiencing a significant increase in production volume.

Figure 5 illustrates the effects of tax incentives on SMEs' growth due to the benefit from import duty incentives compared to their absence.

Figure 4: Experience of Import Duty Incentives for Beneficiaries SMEs out of 39 in the Study

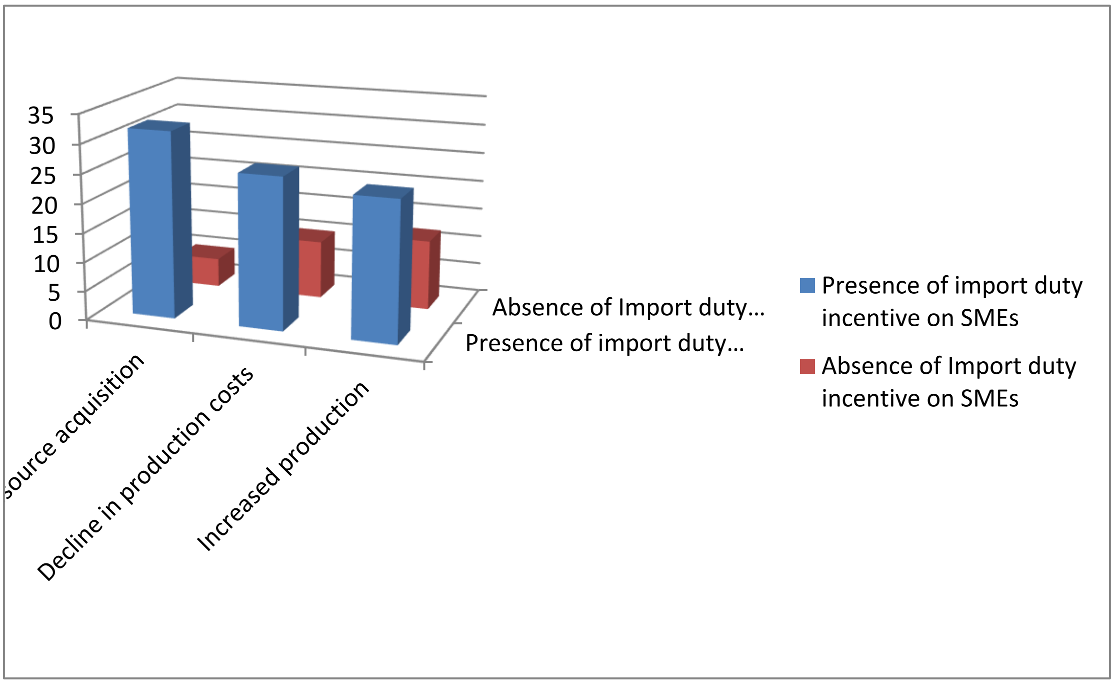
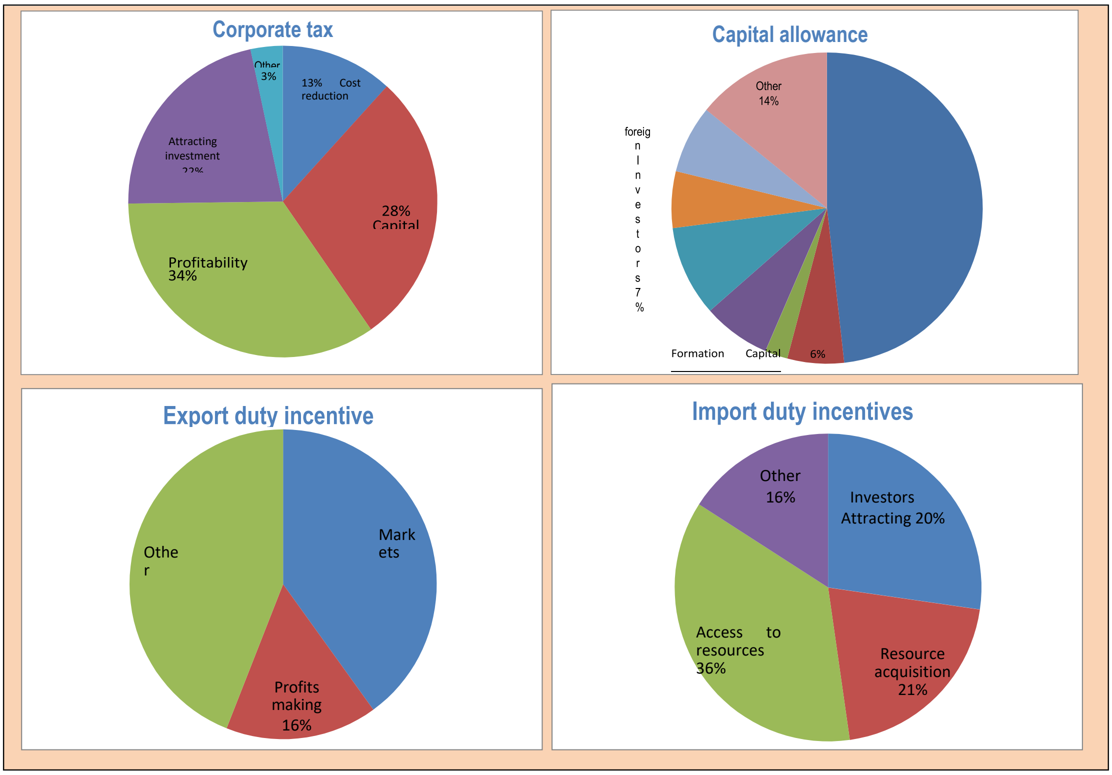


Figure 5: Summary of the Ways Tax Incentives Affects SMEs' Growth Performance



Source: Field Data, 2022

Tax incentives affect the growth of SMEs in various ways, and owners of SMEs value the contribution of the tax incentives regardless of how minimal it is. Corporate tax incentives are likely to influence profitability, contribute to capital formation and attract investment or otherwise (see Figure 4.1). Capital allowance contributes to resource acquisition, accessing foreign markets is enhanced by export duty incentives, while import duty has a majority of the ratings on the contribution to SMEs growth in a sample.

In the scaling or growth stage, a typical SME seeks corporate finance and transitions out of the startup space, then look for corporate tax incentives by registering at the Dares Salaam Stock Exchange market, where an incentive of 25% corporate income profit is benefited. Tanzania boasts a few eagles that have scaled, such as Ubongo Kids, Shule Direct, NALA, Jamii Africa, TAHA and East Africa Fruits. At this stage of start-ups, SMEs experience challenges in accessing these incentives, whereby typical small and medium enterprises (SMEs) are constrained to factors related to the enabling environment and access to finance. This may imply that the support instruments for SMEs at an early stage might be in greater demand than SMEs that have already established, at least in terms of market and finance.

Legal phenomena limit the effectiveness of the effects of tax incentives, especially for SMEs operating at bootstrapping, seeding, and growth stages throughout the startup lifecycle. SMEs in Tanzania are particularly prone to the following:

i) Unrealistic expectations on tax incentives**:** Entrepreneurship is often considered a fashionable quick way to business success by getting and benefiting from tax incentives which are not valid. The rate of non-completion of boot camps for ideas and team building is the evidence of this. Translation of realistic expectations and understandingthat sustainability requires consistent efforts is needed. To succeed in a competitive environment, high but realistic expectations, resource availability, potential extent of growth,and other market factors need to be precise.

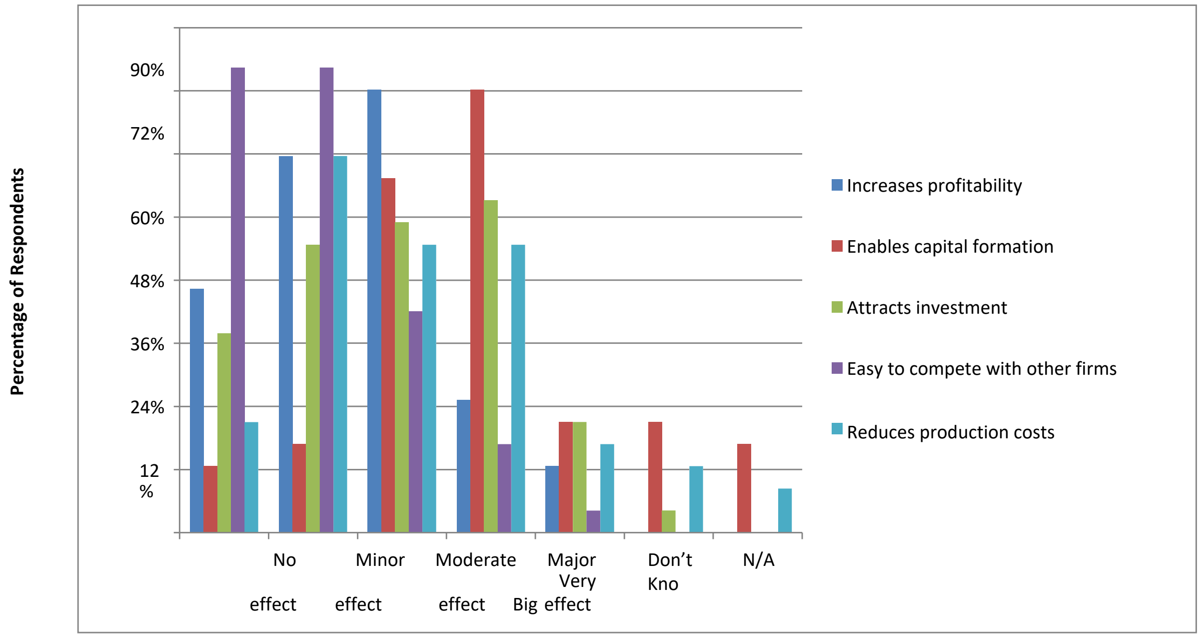
ii) SMEs teams: SMEs generally lack human resource competencies, and the team-building support provided by innovation spaces does not fill that gap. Empower, in partnership with the University of Dar es Salaam, aims to provide the basic human skills needed by entrepreneurs to reduce the fallout of potential startup teams.

iii) Partnership: SMEs depend on building strategic, productive partnerships. Unfortunately, finding trustworthy partners in a highly digitized competitive landscape is challenging. Partnerships pay great dividends for startups, but a variety of factorsbefore collaborating, such as intellectual property rights and roles and responsibilities, need to be considered. Organizations that enjoy a sound presence within the market and a good reputation amongst the industry giants make good partners for startups.

iv) *Customer trust:* Customers are a force behind a startup's success, and Tanzanian startups mustcompete to market their innovative products.

v) Market dynamics: From respondents of the survey, domestic markets are relatively more accessible than international markets. For both international and domestic markets, access to market information and networks is the main challenge for entry (see Figure 2).

Figure 6: Ways Corporate Tax Affects SMEs' Growth



Source: Field Data, 2022

The effects of the mentioned challenges that minimize the expected benefits of tax incentives were made big when Tanzania made registering property more expensive by increasing land and property registration fees in 2018. In 2017, Tanzania made paying taxes more complicated by increasing the frequency of filing the skills development levy and costlier by introducing a workers' compensation tariff to be paid by employers. In 2015, Tanzania made starting a business more difficult by increasing registration fees. The country also made paying taxes more complicated for companies by introducing an excise tax on money transfers.

This may help to explain what Rapuluchukwu et al. (2016) proposed, that tax incentive instruments in LDCs designed to attract investment are weakened by a lack of coordination in the public sector. The author suggests that common thinking among different stakeholders is imperative for the success of any development policy measure. Views of different settings with different objectives must be sorted out if tax incentives are to influence SMEs' growth performance, particularly in developing countries.

4.4 Discussion of Findings

The findings of this study represent a careful and systematic effort to assess the effects of tax incentives on SMEs' growth performance in Arusha City Council, Tanzania. Used here were the independent variables that involved five incentives such as corporate income tax incentive, capital allowance incentive, export duty incentive, import duty incentive and tax rebates. On the other side, SMEs' growth performance involves three factors that are financial, productivity and marketing. The findings of this research uncovered the effects that tax incentives have on SMEs' growth performance. Both theoretical and practical implications for tax incentives have been investigated, consistent with the purpose of this study. The research questions that guided this assessment are discussed in the subsequent heading of independent variables.

4.4.1 Corporate Income Tax Incentives

Research has observed that a number of SMEs are given tax incentive that facilitates the growth and development of SMEs. The findings on corporate profits tax incentives were not unique. Megersa (2019) and Okpeyo et al. (2019) studied tax incentives influencing SMEs' performance; they also discovered that corporate profits tax incentive was statistically significant in explaining SMEs' growth performance. Therefore, the results on corporate profits tax incentives suggest that additional tax incentives beyond profits income automatically improve SMEs' performance in developing economies. In fact, most enterprises in Tanzania are established but do not get information on the opportunity of using tax incentives. On ways in which corporate tax incentive affects SMEs' growth performance, Koranteng et al. (2017) agree that SMEs which get corporate income tax incentives are actually growing and sustainable financially and productively as they use profit saving in their performance process.

4.4.2 Capital Allowance Tax Incentives

Results on capital allowance tax incentives show the central controversies surrounding many studies on SMEs' growth performance, while many studies have linked enterprises' acquisition of resources with SMEs' growth performance (Kiser and Karceski, 2017; GroverGoswami et al., 2019; and Kijkasiwat and Phuensane, 2020), much more need to be established. Conversely, in an influential series of papers, Mintz (2011) concluded that there is no strong or consistent relationship between capital allowance and SMEs growth performance (Mintz, 2011), which possibly is true because many times in developing countries' resources have been underutilized. This is simply to say that exposing SMEs to capital allowances may or may not lead to growth performance. However, for particular resources to meet their anticipated effects, they must elicit enough depreciation allowances from enterprises to bring about the desired growth performance outcomes. These depreciation allowances are guaranteed by setting funds for capital expenditure aspects of the working assets.

4.4.3 Export Duty Incentives

Many entrepreneurs come to invest in the economy with high expectations to be fully supported than the conditions to qualify for special treatments. The investors know that they have to be placed in a conducive environment for business processes. Even though much of their experiences match their expectations, they often face the challenge of balancing the country's need for resources for development which it requires from them and the favour of being exempted from tax payments. This results in unpreparedness in facing the reality of the economy and perceiving that they are given fewer incentives than what they need.

SMEs should incorporate export incentive opportunities such as those streamlined in multilateral agreements like the East African Community, SADC, etc. Enterprises dealing with export products should be keen on identifying the products which are given export duty incentives (Ugwu, 2018; Lockhande, 2020).

Finally, government authorities working in tax administration and investment centres should work close to SMEs to make them aware of the opportunities of these tax incentives. Many owners and managers of SMEs operating, particularly in Arusha city, fall short of knowing how to streamline their development goals to match with tax incentive opportunities. For SMEs that is committed to using tax incentive, government authorities appear to be close in providing counsel and information on how to access the incentives. Entrepreneurs can identify the appropriate products, activities and procedures in which to engage and succeed.

4.5 Summary of the Study

The study used primary data that involved questionnaires and document study. The sample size had 97 respondents. The data collected was analyzed using descriptive statistics. The findings were presented in the form of tables and figures. Before embarking on the research questions, respondents' demographic information that was initially controlled was analyzed. There was wide gender disparity in terms of turnout; other demographic factors like educational level, ownership status of SMEs, and experience were presented. The results revealed that SME owners'/managers' views of various aspects were identified as influencing the outcome measures.

The corporate income tax incentive has proven to be one of the most important factors influencing SMEs' growth performance. Simply put, the more corporate income tax incentive is given, the more likely it is that the SMEs will grow, especially financially and productively. This implies that the traditional status barrier between SMEs' activities and performance remains a stamping block to break for SMEs that do not get this form of tax relief. In short, the theory of the benefit of tax encourages the government to focus more on granting corporate income tax incentives as this promotes SMEs' growth and development.

To conclude this study, too much research on tax incentives focuses on other developments that are not to the immediate goal of developing countries which have the ambition to alleviate poverty, create jobs and reduce inequality through promoting the private sector, particularly the SMEs. Though informative, such research does not lead to reasonable policies and practices. In moving towards the identification of the possible effects of tax incentives on SMEs' growth, the study focused on conditions within enterprise control.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter consists of the conclusion, recommendations and future research directions. It highlights the major findings of the study, which were obtained from the data analysis. It also presents academic, managerial and policy recommendations. There are some questions and objectives that this study addressed. The achievement of those objectives culminated in some recommendations to guide future works in this subject area.

5.1 Conclusion

This study has identified the kinds of tax incentives that are mostly applied to SMEs operating in Arusha City Council as corporate income tax, export duty and import duty incentives, which enterprises find appropriate to benefit from government policy instruments. By reflecting on tax incentives, enterprises can benefit if they are serious in their pursuit of growth and success. The study relied on theories and past research to identify the effects of the different kinds of tax incentives implemented. The main variables on SMEs' growth performance, namely finance, production and marketing, were used as dependent variables. The results showed that corporate tax incentives and import duty were directly effective on SMEs' growth performance variables.

Furthermore, it is alleged that the greater the SMEs' use of tax incentives, the greater will be the amount of SMEs' growth and development. In this regard, all tax incentives should be evaluated in terms of the degree to which they increase or reduce SMEs' performance or otherwise. From the standpoint of entrepreneurs, the most important thing is to develop effective organizational policies or practices that directly streamline and integrate government opportunities. Similarly, all SMEs should assess their own activities in terms of their qualifying for government opportunities. More specifically, owners of SMEs should be at the frontline in promoting activities that collaborate with the government in dealing with poverty, unemployment and inequality challenges to benefit the tax incentives.

5.2 Recommendations

In light of the findings and conclusion, several recommendations were put forward by respondents that will shape the SME sector in Arusha City Council and Tanzania at large. This study highlights the effects of tax incentives on SMEs' growth, including generating profits for furthering investment in the country, reducing production costs and accessing domestic and foreign markets. This approach to understanding SMEs' performance suggests several recommendations. Given the particularity of locating the study in a single section of a region, the recommendations for practice are tailored to meet the needs of the Arusha City Council. Certainly, the findings of the study may resonate with the climate of SMEs in their operating localities.

Policies that enable SMEs to benefit from tax incentives be reviewed in the economy to accommodate start-up SMEs that come up with innovative ideas of providing improved products, processes, and services with increasing efficiency and creating jobs. In the short to medium term, governments can use policies for entrepreneurship and innovation to meet productivity and job creation objectives.

Balanced and consistent tax incentives are needed for SMEs' predictable growth performance. Research by the Organisation for Economic Co-operationand Development (OECD) shows how unbalanced taxes on company profits and losses and high average tax rates can diminish SMEs and entrepreneurship activity. In addition, there should not be unnecessary obstacles, such as taxation, social security, bankruptcy legislation, competition policy, product market regulation, labour market regulation, financial markets, and intellectual propertyprotection, to SMEs and entrepreneurship in the economy's institutions.

Tanzania's socio-economic landscape has changed, and the policy environment is not designed to accommodate change flexibility. Thus, most of the ensuing laws are static. The laws are not enacted contrary to the policies. For example, the national trade policy accommodates intellectual laws, companies, and business names. The Business Licensing Act originates from a policy that is silent on start-ups and SMEs incentives that are needed today. Consequently, the laws are silent on SMEs' current challenges and needs and lack an equivalent concept/terminology.

5.3 Direction for Further Research

No one study can answer all questions about a given topic. Although this study made a good step in understanding how tax incentives contribute to SMEs' performance, it was just that first step. Additional research is needed to address some of the questions raised by the current study. Future research should look at the longitudinal process SMEs performance as reflected in longitudinal follow-up data rather than cross-sectional data only. Furthermore, the analyses should follow longitudinal regression such as time series analysis equations according to selected variables of SMEs' performance and time period. Second, the research was narrowed to one geographical location, which can be extended to cut across regions in Tanzania. Third, this study addressed the perceptions of entrepreneurs about the effects of tax incentives on SMEs' performance. Thus, it is not known how well these perceptions reflect the actual conditions. For example, there may exist a significant within-person variation in support for variables according to economic status, religion, culture, or political inclination. To improve the actual condition, future research may need to consider collecting data regarding the actual conditions of the SMEs' performance and tax incentives.

Lastly, a quantitative approach dominated the findings of this research; a researcher feels that further research should be done in this field using a qualitative approach which will allow the researcher to get rich data using the interview method of data collection.

REFERENCES

Abbas, S. M., Klemm, A., Park, J., & Bedi, S. (2012). Quantifying structural subsidy values for systemically important financial institutions.

Ameyaw, B., Korang, J., Twum, E., & Asante, I. (2016). Tax policy, SMEs compliance, perception and growth relationship in Ghana: An empirical analysis. *British Journal of Economics, Management & Trade*, 11(2),1-11

Atawodi, O. W., & Ojeka, S. A. (2012). Factors that affect tax compliance among small and medium enterprises (SMEs) in North Central Nigeria. *International Journal of Business and Management,* 7(12), 87

Bird, R., & Wallace, S. (2003). Is it really so hard to tax the hard-to-tax? The context and role of presumptive taxes. *International Tax Program Papers*, (0307)

Biswas, S., Chakraborty, I., & Hai, R. (2017). Income inequality, tax policy, and economic growth. The

Economic Journal, 127(601), 688-727.

Bozdoğanoğlu, B. (2017). Tax issues arise from a new economic model: Sharing economy. *International Journal of Business and Social Science*, 8.

Broersma L, Gautier P (2017). Job creation and job destruction by small firms: An empirical investigation for the Dutch manufacturing sector. *Small Business Economics* 9(3):211-224

Chen D, Lee FC, Mintz J (2002). *Taxation, SMEs and entrepreneurship.* Available at: https://www.oecdilibrary.org/docserver/013245868670.pdf?expires=1557142098&id=id&accname=guest&checksum=39D0C37D2D8AF06F3A2196D60DDD 5335

Creswell, J. W. (2018). *Research design: qualitative, quantitative and mixed methods approach*. Thousand Oaks, California: Sage Publications

De Wit G, De Kok J (2014). Do small businesses create more jobs? New evidence for Europe. *Small Business Economics* 42(2):283-295

Diabate, A., Sibiri, H., Wang, L., & Yu, L. (2019). Assessing SMEs' sustainable growth through entrepreneurs' ability and entrepreneurial orientation: An insight into SMEs in Côte d'Ivoire.

Sustainability, 11(24), 7149.

Domfeh, H. A., Kusi, L. Y., Nyarku, K. M., & Ofori, H. (2018). The mediating effect of customer satisfaction in the predictive relation between celebrity advertising and purchase intentions

in the telecom industry in Ghana: University Students' Perspective. International Journal of

Business and Management Invention (IJBMI), 7(3), 40-54.

Engidaw, A. E. (2021). The effect of external factors on industry performance: The case of Lalibela City micro and small enterprises, Ethiopia. *Journal of Innovation and Entrepreneurship, 10*(1), 1–14.

Gamage, S. K. N., Ekanayake, E. M. S., Abeyrathne, G. A. K. N. J., Prasanna, R. P. I. R., Jayasundara, J. M. S. B., & Rajapakshe, P. S. K. (2020). A Review of Global Challenges and

Survival Strategies of Small and Medium Enterprises (SMEs). Economies, 8(4), 1-24.

Grover Goswami, A., Medvedev, D., & Olafsen, E. (2019). High-growth firms: Facts, fiction, and policy options for emerging economies. The World Bank.

Hansson A, Brokelind C (2014). Tax Incentives, Tax Expenditures Theories in R&D: The Case of Sweden. *World Tax Journal* 6(2):168-200

Keen, M & Mansour, M. (2013) “Revenue Mobilization in Sub-Saharan Africa: Challenges from Globalization II – Corporate Taxation,” *Development Policy Review*, 28; 573-596.

Kijkasiwat, P., & Phuensane, P. (2020). Innovation and firm performance: The moderating and mediating roles of firm size and small and medium enterprise finance. Journal of Risk and

Financial Management, 13(5), 97.

Kiser, E., & Karceski, S. M. (2017). The political economy of taxation. Annual Review of Political Science, 20, 75-92.

Kusi L (2021). Tax Administration, Tax Incentive and SMEs’ Growth: The Moderating Effect of Firms Size. *Journal of Business and Enterprise Development – JOBED*; 9, 1-20

Liakhoyets, O. (2014). Tax Incentives Effectiveness for the innovation activity of industrial enterprises in Ukraine. *Economics & Sociology*, 7(1), 72-84

Lim, D. S., Morse, E. A., & Yu, N. (2020). The impact of the global crisis on the growth of SMEs: A resource system perspective. International Small Business Journal, 38(6), 492-503.

Lokhande, M. N. G. (2020). The impressive changes digital businesses and technology are making in accounting. *Studies in Indian Place Names*, 40(61), 192-195.

Louis, D., & Macamo, P. (2011). Barriers to business growth: A study on small enterprises in Maputo

Masanja, M. D., (2019). *Major Taxation Challenges facing Small and Medium Scale Business Enterprises in Tanzania* accessed on February, 2022 from https://www.researchgate.net/publication/337033145_

Mayende, S. (2013). The effects of tax incentives on firm performance: Evidence from Uganda. *J. Pol. & L.,* 6, 95

Meena, P., (2013). *Assessment of the Challenges Facing Revenue Collection in Tanzania:* Evidence from Tanzania Revenue Authority (TRA); Morogoro accessed on February, 2022 from http://scholar.mzumbe.ac.tz/bitstream/handle/11192/550/MBA%20CM%20Dissertation-Prisely%20Meena-.2013.pdf?

Megersa, K. (2019). Review of tax incentives and their impacts in Asia.

Mintz J, Chen D (2011). Small Business Taxation: Revamping Incentives to Encourage Growth. *SPP Research Paper* 1-31.

Mukhlis, Imam, Sugeng Hadi Utomo, & Yuli Soesetyo. (2013, March). Increasing Tax Compliance Through Strengthening Capacity of Education Sector for Export Oriented SMEs Handcarft Field in East Java Indonesia. *European Scientific Journal*, 10(7), 170-184.

Mukhlis, I., & Simanjuntak, T. H. (2016). Tax compliance for businessmen of micro, small and medium enterprises sector in the regional economy. International Journal of Economics, Commerce and Management, 4(9), 116-126.

Musamali, M. M., & Tarus, D. K. (2013). Does firm profile influence financial access among small and medium enterprises in Kenya? *Asian Economic and Financial Review,* 3(6), 714.

Neill, J. R. (2000). The benefit and sacrifice principles of taxation: A synthesis. *Social Choice and Welfare*, 17(1), 117-124.

Okpeyo, E. T., Musah, A., & Gakpetor, E. D. (2019). Determinants of tax compliance in Ghana. *Journal of Applied Accounting and Taxation*, 4(1), 1-14.

Olomi, D.R., (2003). *Entrepreneurship and Small Business Development: A Tanzanian Perspective*. University of Dar Es Salaam Entrepreneurship Centre (UDEC)

Rapuluchukwu, E. U., Belmondo, T. V., & Ibukun, B. (2016). Incentives and firms' productivity: Exploring multidimensional fiscal incentives in a developing country OCP Policy Center.

Saunders, M - Lewis, P - Thornhill, A. (2017). *Research methods for business students, 5th ed.* (5 ed.). Harlow: Pearson Education.

Scherf, R., & Weinzierl, M. (2020). Understanding different approaches to benefit-based taxation*. Fiscal Studies*, 41(2), 385-410

Siyanbola, T. T., Adedeji, S. B., Adegbie, F. F., & Rahman, M. M. (2017). Tax incentives and industrial/economic growth of sub-Saharan African States. *Journal of Advanced Research in Business and Management Studies,* 7(2), 78-90

Stoilova, D. (2017). Tax structure and economic growth: Evidence from the European Union. Contaduría y Administración, 62(3), 1041-1057.

Stuebs Jr, M. T., & Whiteaker-Poe, H. (2018). Making tax havens work: The necessity of tax professionalism. Accounting and the Public Interest, 18(1), 53-80

Tee, E., Boadi, L., & Opoku, R. (2016). The effect of tax payment on the performance of SMEs: The

case of selected SMEs in Ga West municipal assembly. European Journal of Business and

Management, 8(20).

Twesige, D., & Gasheja, F. (2019). Effect of tax incentives on the growth of small and medium-sized enterprises (SMEs) in Rwanda: A case study of SMEs in Nyarugenge district. *Journal of Accounting and Taxation,* 11(5), 89-98

UNCTAD (2003). *The financial grants to encourage investment and employment in non-traditional sectors*. New York: UNCATAD

Wang, J., Zhang, Y., & Goh, M. (2018). Moderating the role of firm size in sustainable performance

improvement through sustainable supply chain management. Sustainability, 10(5), 1654.

Xu, B., Li, L., Liang, Y., & Rahman, M. U. (2019). Measuring risk allocation of the tax burden for small and micro enterprises. *Sustainability,* 11(3), 741

Zee HH, Stotsky JG, Ley E (2002). Tax incentives for business investment: A primer for policymakers in developing countries. *World Development* 30(9):1497-1516.

APPENDICES

Appendix 1 A QUESTIONNAIRE TO SMALL AND MEDIUM-SIZE ENTERPRISES (SMEs)

1. INTRODUCTION

Dear respondent

Mr Musa Mondo is a student of Masters in Business Administration at IAA and has been commissioned by the institute to conduct a Cross-sectional Study on the effects of tax incentives on the growth of SMEs in Tanzania, Arusha City Council. The overall goal of the research is to assess the effects of tax incentives on the growth of SMEs in Tanzania, with reference to Arusha City Council.

Confidentiality

Before you begin, I want to let you know that any information or examples we gather during this survey will not be attributed to you personally. Your privacy will be protected; we will not include your name or any information in our reports that would make it possible to identify you without your consent.

Right to Ask Questions and Report Concerns

You have the right to ask questions about this study and to have those questions answered by us before, during or after filling out the questionnaire.

If you have any further questions about the study at a later stage, feel free to send them to Mr. Musa Mondo through E-mail to: musamondo16@gmail.com or via cell phone number +255 767 824 978 or the on +255 683 824 978.

Consent

Our interview will take approximately twenty minutes. And you are free to not respond to any of our questions or stop at any time.

Do you agree to participate in this survey? Yes/No………Yes……………..

Options

If yes, you may fill out the **online questionnaire** or continue filling out this form and send it back through **musamondo16@gmail.com**

3.0 TAX INCENTIVES AND GROWTH OF SMALL AND MEDIUM SIZE ENTERPRISES

3.1 Government tax incentives practised to SMEs in their performance

3.1.1 Corporate income tax

What are the corporate income tax incentives practised to SMEs in their performance?

Corporate income tax incentives	***Strongly disagree***	***Disagree***	***Uncertain***	***Agree***	***Strongly agree***
Receives income tax exemption					
It is an effective income tax incentive					
Reduces financial constraint burden					
Improve profitability					
Improve profit retention					
Helps in building financial capacity					
Make me optimistic about future financial growth					
Reduces production cost burden					
Helps in building productive capacity					

Make me optimistic of future production growth					
Reduces marketing costs burden					
Make pricing cheap					
Increases delivering access to products to customers					
Other (specify)					

Corporate income tax incentive needs. What are the main elements of your SMEs that need this incentive to grow?

Corporate income tax incentives needs	Tick all that apply
Percentage or the rate	
Pay as you earn	
Post-determination of tax obligation	
Base on reality, not estimations	
Other (Specify)	

Comment on any other issue relating to corporate income tax incentives on SMEs growth

....

Capital allowance tax

What are the capital allowance tax incentives practised to SMEs in their performance?

Capital allowance tax incentives	*Strongly disagree*	*Disagree*	*Uncertain*	*Agree*	*Strongly agree*
Receives capital allowances					
It is an effective depreciation allowance tax incentive					
Reduces financial constraint burden					
Helps in building financial capacity					
Make me optimistic about future financial growth					
Reduces production cost burden					
Helps in building productive capacity					
Improve asset acquisition					
Improve business innovation					
Make me optimistic about future production growth					
Reduces marketing costs burden					
Make pricing cheap					
Increases delivering access to products to customers					
Other (specify)					

Capital allowances tax incentive needs. What are the main elements of your SMEs that need this incentive to grow?

Capital allowance tax incentive needs	Tick all that apply
Percentage or the rate	
Frequency of payment	
Adequacy payment	
Base on reality, not estimations	
Other (Specify)	

Comment on any other issue relating to capital allowance tax incentives on SMEs growth

....

Export duty incentives

What is the export duty incentives practiced to SMEs in their performance?

Export duty incentives	*Strongly disagree*	*Disagree*	*Uncertain*	*Agree*	*Strongly agree*
Receives export duty incentives					
It is an effective tax incentive					
Reduces financial constraint burden					
Helps in building financial capacity					
Make me optimistic about future financial growth					
Reduces production cost burden					
Helps in building productive capacity					
Improve asset acquisition					
Improve business innovation					
Make me optimistic about future production growth					
Reduces marketing costs burden					
Make pricing cheap					
Increases delivering access to products to customers					
Other (specify)					

Export duty incentive needs. What are the main elements of your SMEs that need this incentive to grow?

Export duty incentive needs	Tick all that apply
Percentage or the rate	
Frequency of payment	
Adequacy payment	
Base on reality, not estimations	
Other (Specify)	

Comment on any other issue relating to export duty incentives on SMEs growth

....

Import duty incentives

What are the import duty incentives practised to SMEs in their performance?

Import duty incentives	*Strongly disagree*	*Disagree*	*Uncertain*	*Agree*	*Strongly agree*
Receives import duty incentives					
It is an effective tax incentive					
Reduces financial constraint burden					
Helps in building financial capacity					

Make me optimistic about future financial growth					
Reduces production cost burden					
Helps in building productive capacity					
Improve asset acquisition					
Improve business innovation					
Make me optimistic of future production growth					
Reduces marketing costs burden					
Make pricing cheap					
Increases delivering access to products to customers					
Other (specify)					

Import duty incentive needs. What are the main elements of your SMEs that need this incentive to grow?

Import duty incentive needs	Tick all that apply
Percentage or the rate	
Frequency of payment	
Adequacy payment	

Base on reality, not estimations	
Other (Specify)	

Comment on any other issue relating to import duty incentives on SMEs growth

……

Tax rebates incentives

What are the tax rebate incentives practised to SMEs in their performance?

Tax rebates incentives	*Strongly disagree*	*Disagree*	*Uncertain*	*Agree*	*Strongly agree*
Receives tax rebates incentives					
Receives tax holidays					
Receives tax credit incentive					
It is an effective tax rebates incentive					
Reduces financial constraint burden					
Helps in building financial capacity					
Make me optimism of future financial growth					
Reduces production cost burden					

Helps in building productive capacity					
Improve asset acquisition					
Improve business innovation					
Make me optimistic about future production growth					
Reduces marketing costs burden					
Make pricing cheap					
Increases delivering access to products to customers					
Other (specify)					

Tax rebates incentive needs. What are the main elements of your SMEs that need this incentive to grow?

Tax rebates incentive needs	Tick all that apply
Percentage or the rate	
Frequency of payment	
Adequacy payment	
Base on reality, not estimations	
Other (Specify)	

Comment on any other issue relating to export duty incentives on SMEs growth

....

3.2.1 Corporate income tax incentives on SMEs growth

To what degree are the following elements of the SMEs' growth performance influenced by corporate income tax incentives?

Corporate income tax influence	*No influence*	*Minor influence*	*Moderate influence*	*Major influence*	*Very Big influence*	*Don't Know*
Financial growth						
Production growth						
Marketing growth						
Other (specify)						

Comment on any other influence

Capital allowances tax incentives on SMEs growth

To what degree are the following elements of the SMEs' growth performance influenced by capital allowances tax incentives?

Capital allowance tax incentive influence	*No influence*	*Minor influence*	*Moderate influence*	*Major influence*	*Very Big influence*	*Don't Know*
Financial growth						
Production growth						
Marketing growth						
Other (specify)						

Comment on any other influence

Export duty incentives on SMEs growth

To what degree are the following elements of the SMEs' growth performance influenced by export duty incentives?

Export duty incentive influence	*No influence*	*Minor influence*	*Moderate influence*	*Major influence*	*Very Big influence*	*Don't Know*
Financial growth						
Production growth						
Marketing growth						
Other (specify)						

Comment on any other influence

Import duty incentives on SMEs growth

To what degree are the following elements of the SMEs' growth performance influenced by import duty incentives?

Import duty incentive influence	*No influence*	*Minor influence*	*Moderate influence*	*Major influence*	*Very Big influence*	*Don't Know*
Financial growth						
Production growth						
Marketing growth						
Other (specify)						

Comment on any other influence

Tax rebates duty incentives on SMEs growth

To what degree are the following elements of the SMEs' growth performance influenced by tax rebates duty incentives?

Tax rebates duty incentive influence	*No influence*	*Minor influence*	*Moderate influence*	*Major influence*	*Very Big influence*	*Don't Know*
Financial growth						
Production growth						
Marketing growth						
Other (specify)						

Comment on any other influence

3.3.1 Ways through which corporate income tax affects SMEs growth performance

In which ways do corporate income tax affects SMEs' growth performance in the current operations of your SMEs?

Corporate income tax incentive ways of effects	*No effect*	*Minor effect*	*Moderate effect*	*Major effect*	*Very Big effect*	*Don't Know*
Increases profitability						
Enables capital formation						
Reduces production costs						
Increases resources acquisition						
Attracts investment						
Access to the domestic market that could otherwise be limited by tax						

Make it easy to compete with other SMEs						
Access to foreign markets that could otherwise be limited by tax						
Access to networks that could otherwise be limited in scaling to new markets						
Other (specify)						

Ways through which capital allowance tax incentive affects SMEs' growth performance

In which ways does capital allowance tax incentive affect SMEs' growth performance in the current operations of your SMEs?

Capital allowance tax incentive ways of effects	*No effect*	*Minor effect*	*Moderate effect*	*Major effect*	*Very Big effect*	*Don't Know*
Increases profitability						
Enables capital formation						
Reduces production costs						
Increases resources acquisition						
Attracts investment						
Access to the domestic market that could otherwise be limited by tax						

Make it easy to compete with other SMEs						
Access to foreign markets that could otherwise be limited by tax						
Access to networks that could otherwise be limited in scaling to new markets						
Other (specify)						

Ways through which export duty incentive affects SMEs' growth performance

In which ways do export duty incentive affect SMEs' growth performance in the current operations of your SMEs?

Export duty incentive ways of effects	*No effect*	*Minor effect*	*Moderate effect*	*Major effect*	*Very Big effect*	*Don't Know*
Increases profitability						
Enables capital formation						
Reduces production costs						
Increases resources acquisition						
Attracts investment						
Access to the domestic market that could otherwise be limited by tax						

Make it easy to compete with other SMEs						
Access to foreign markets that could otherwise be limited by tax						
Access to networks that could otherwise be limited in scaling to new markets						
Other (specify)						

Ways through which import duty incentive affects SMEs' growth performance

In which ways do import duty incentive affects SMEs' growth performance in the current operations of your SMEs?

Import duty incentive ways of effects	*No effect*	*Minor effect*	*Moderate effect*	*Major effect*	*Very Big effect*	*Don't Know*
Increases profitability						
Enables capital formation						
Reduces production costs						
Increases resources acquisition						
Attracts investment						
Access to the domestic market that could otherwise be limited by tax						

Make it easy to compete with other SMEs						
Access to foreign markets that could otherwise be limited by tax						
Access to networks that could otherwise be limited in scaling to new markets						
Other (specify)						

Ways through which Tax rebates incentive affects SMEs' growth performance

In which ways do tax rebates incentive affect SMEs' growth performance in the current operations of your SMEs?

Tax rebates incentive ways of effects	*No effect*	*Minor effect*	*Moderate effect*	*Major effect*	*Very Big effect*	*Don't Know*
Increases profitability						
Enables capital formation						
Reduces production costs						
Increases resources acquisition						
Attracts investment						
Access to the domestic market that could otherwise be limited by tax						

Make it easy to compete with other SMEs						
Access to foreign markets that could otherwise be limited by tax						
Access to networks that could otherwise be limited in scaling to new markets						
Other (specify)						

Comment on any other ways

3.4 Recommended tax incentive policy reform for SMEs growth

3.4.1 Is there any tax incentive policy that you would recommend for change to foster SME growth?

Please explain what and how.

3.4.2 Are you involved and streamlining these SMEs to take advantage of a business opportunity on tax incentives, among others, or do you not make decisions at all with regard to tax incentives?

Take advantage of business opportunities on tax incentive

Do not make decisions at all with regard to tax incentive

None of the above

Always seek other better opportunities

Other (Please specify)

Don't Know

3.3.2 Which one of the following do you feel is the most important motive for pursuing tax incentive opportunities?

Gain greater competitive advantages

Increase enterprise income

Reduce constraints of investments in the economy

Both of the above

Other (Please specify)

Don't Know

Thank you for your time